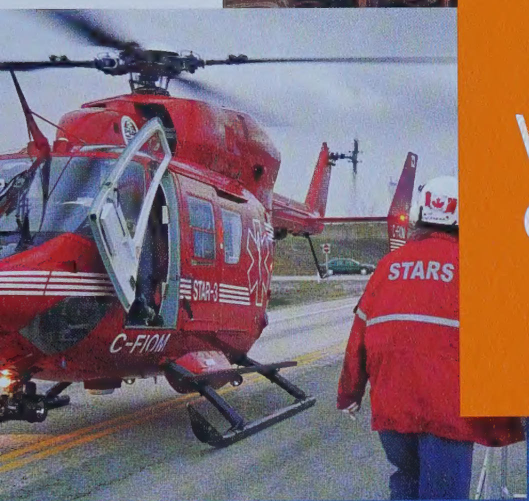
We're Well Connected



ALTAGAS INCOME TRUST

ANNUAL REPORT 2005

CUSTOMERS

240 NATURAL GAS PRODUCERS CONNECT TO ALTAGAS PROCESSING FACILITIES

1,200 ENERGY MANAGEMENT CUSTOMER CONTRACTS

6% OF ALBERTA'S ELECTRICITY DEMAND SUPPLIED BY ALTAGAS

INVESTORS

$1.67/UNIT NET INCOME

$1.84/UNIT CASH DISTRIBUTED IN 2005

plus $0.54/unit in AltaGas Utility Group Inc. shares.

31% TOTAL RETURN IN 2005

including AltaGas Utility Group Inc. share distribution.

We're Well Connected

EMPLOYEES

480 SKILLED INDIVIDUALS CONTRIBUTE TO OUR SUCCESS

4th CONSECUTIVE YEAR SELECTED AS ONE OF CANADA'S TOP 100 EMPLOYERS

11 OFFICES IN FOUR PROVINCES

COMMUNITY

10th UNITED WAY PLATINUM AWARD

STARS PARTNERED WITH THE SHOCK TRAUMA AIR RESCUE SOCIETY

92 ORGANIZATIONS SUPPORTED BY ALTAGAS DONATIONS IN 2005

5 YEAR OVERVIEW

In the last five years, we continued to grow our integrated energy business by making connections along the energy value chain, connecting energy supply to the end-user. Over this period, our assets grew by 48 percent while EBITDA and net income increased by 122 percent and 370 percent, respectively, providing our investors with a total return of almost 700 percent.

($ millions except as indicated)	2005	2004	2003	2002	2001
Revenue	1,502.3	864.6	710.6	492.7	489.8
Net revenue(1)	296.9	250.4	217.3	169.9	135.0
EBITDA(1)	155.5	133.4	121.9	94.8	69.9
Net income	90.3	65.8	38.3	29.4	19.2
Total assets	1,068.3	1,108.6	919.3	904.9	721.1
Total debt	269.0	359.5	396.9	419.5	383.9
Debt as a percent of total capitalization (%)	36.0	42.6	52.2	55.3	58.5
Funds generated from operations(1)	128.2	108.6	90.2	70.8	50.2
Distributions/ dividends paid(2)	99.2	58.7	17.3	11.9	6.9
Weighted average units outstanding (basic, millions)	54.0	49.4	45.5	42.3	38.2
Units outstanding at year-end (millions)	54.6	53.2	45.7	45.2	38.5
$ per basic unit					
Net income per unit	1.67	1.33	0.84	0.70	0.50
Funds generated from operations per unit(1)	2.37	2.20	1.98	1.67	1.31
Distributions/ dividends paid per unit	1.84	1.31	0.38	0.28	0.18

(1) Non-GAAP financial measures. Please see discussion beginning on page 25 in the Management's Discussion and Analysis.

(2) In 2005 an additional distribution valued at $29.3 million ($0.54 per unit) in the form of AltaGas Utility Group Inc. shares was made.

2005 Performance Drivers

In 2005 we grew net income by 37 percent as a result of:

- Owning the Edmonton Ethane Extraction Plant (EEEP) and PremStar energy services business for a full year;
- Higher realized power prices; and
- Gain on sale of investment of Taylor NGL Limited Partnership units.

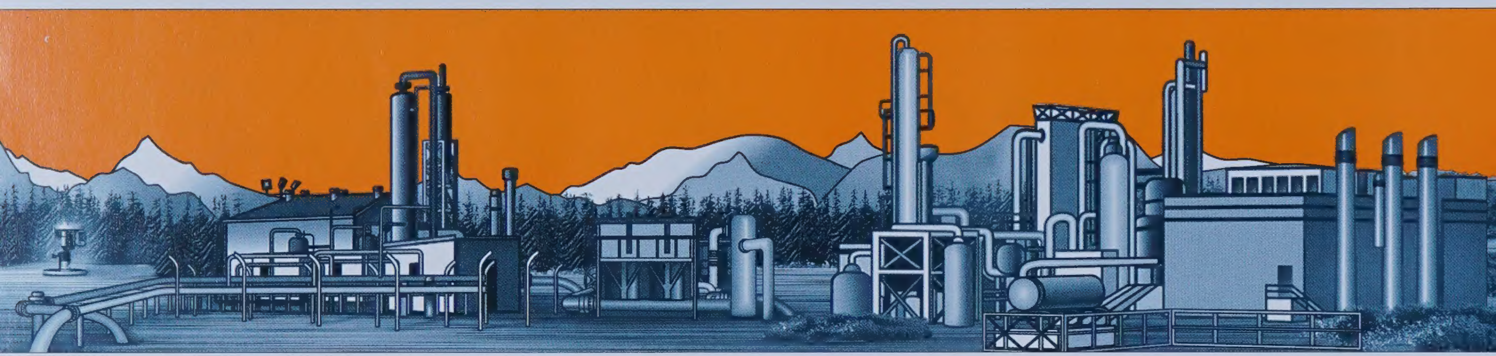
This growth was somewhat offset by higher:

- Operating and administrative expenses due to expanding operations; and
- General corporate expenses as we grew our business to $1.5 billion market capitalization.

In August 2005 AltaGas increased distributions per unit by 7 percent to 16 cents per month from 15 cents.

Making Connections
ALONG THE ENERGY VALUE CHAIN

FIELD GATHERING AND PROCESSING EXTRACTION AND TRANSMISSION



Field Gathering and Processing

TODAY: Facilities in 31 operating areas of the Western Canada Sedimentary Basin (WCSB) capable of processing both sweet and sour natural gas. A diverse customer base.

OPPORTUNITY: Natural gas prices are expected to remain strong over the long term. Continued strong drilling and production in the WCSB and in AltaGas' core areas. Our core operating areas are expected to continue experiencing high reserve replacement rates, which means vigorous field activity and the requirement for reliable processing infrastructure.

STRATEGY: Increase plant utilization in existing operating areas by adding new customers and optimizing facilities. Meet producer requirements for gathering and processing facilities in existing and new operating areas. Expand and extend our operating areas by acquiring or building additional skid-mounted facilities.

Extraction and Transmission

TODAY: Ownership in four extraction facilities producing ethane and natural gas liquids (NGLs). AltaGas operates EEEP and a field fractionation plant at Bantry in southeast Alberta. AltaGas owns and operates six transmission pipelines – five transporting natural gas and one shipping condensate.

OPPORTUNITY: Continued high drilling activity and production in the WCSB and strong demand for ethane and NGLs for the petrochemical industries, coupled with long-term commercial arrangements that provide stability in earnings and cash flow, will allow us to continue to optimize and add facilities.

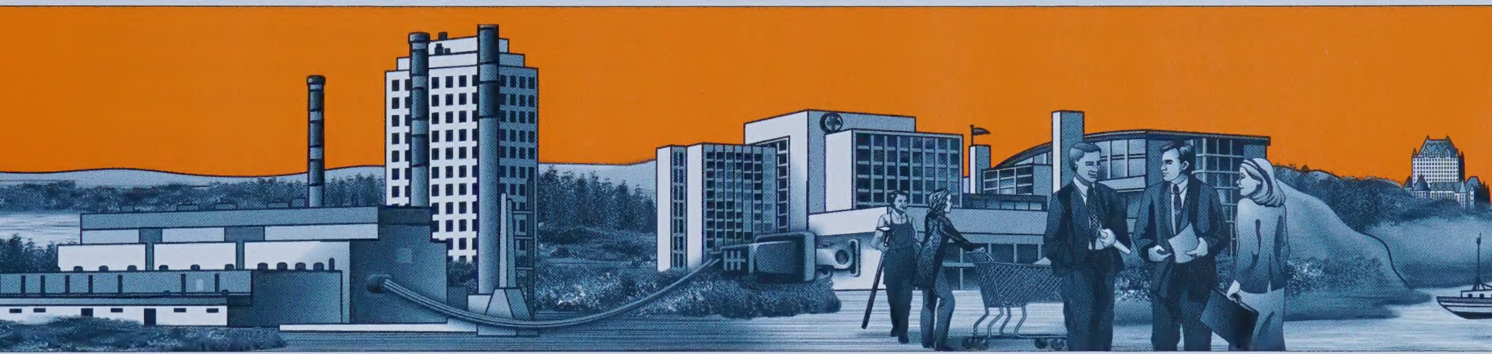
STRATEGY: Maintain stable cash flows using commercial arrangements that have long-term fixed-fee or cost-of-service components with volume commitments from producers. Increase extraction plant and transmission system utilization and expand existing facilities. Acquire and develop new facilities or increase ownership of plants where our interest is less than 100 percent. Create synergies with Energy Services and Field Gathering and Processing by providing marketing, transportation management and processing services.

AltaGas' success is driven by our ability to connect with our customers along the energy value chain. We began in 1994 with two short-term service contracts and 20 employees. Since then, we have grown into an integrated energy business that has forged many links along the energy value chain, including: natural gas gathering and processing; extraction of ethane and NGLs; transmission of natural gas and condensate; power generation; and energy services. AltaGas is one of Canada's largest and fastest-growing integrated energy infrastructure and services organizations. We're well connected.

Today AltaGas has five reporting segments: Field Gathering and Processing; Extraction and Transmission; Power Generation; Energy Services; and Corporate. We also reported a Natural Gas Distribution segment from 1998 until its spin-out in late 2005.

POWER GENERATION

ENERGY SERVICES



Power Generation

TODAY: Power purchase arrangements (PPAs) for 353 MW of low-cost Alberta power generation that expire in 2020, complemented by 25 MW of gas-fired peaking assets for backstopping, fuel diversity and incremental revenue. Disciplined hedging of a significant portion of our power supply prior to the beginning of each year helps balance our operational risk and market price exposure.

OPPORTUNITY: Growing North American demand for cleaner energy sources for power generation, such as natural gas, hydro and wind. Energy demand and natural gas prices remain strong in Alberta, continuing to support power prices. New auctions of existing power capacity. Continued decommissioning of thermal power plants in Ontario.

STRATEGY: Grow through acquisition and development of power projects. Develop operational capability. Diversify geographically and by fuel source. Capitalize on increasing demand for clean power across Canada by investing in renewable power project development. Pursue additional PPAs. Drive stable, predictable cash flow from long-term contracts with investment-grade counterparties.

Energy Services

TODAY: Strong regional presence in the energy management sector, providing energy consulting and supply management services and arranging gas and power supply for non-residential end-users primarily in Ontario, Alberta and B.C. Market-leading billing systems, customer service, and in-depth knowledge of gas and power markets. Strong presence across Canada in gas services business, supplying natural gas and transportation and storage services.

OPPORTUNITY: Increasing customer demand for proactive management of gas and electricity costs in high-priced, volatile energy markets across Canada. Synergies within Energy Services and across our segments.

STRATEGY: Grow organically from recent acquisitions and through national brand development. Maintain high renewal rate of energy management contracts. Excel in customer service by levering energy market knowledge and sophisticated billing systems. Increase market penetration of national energy management services in gas and electricity. Capitalize on our market knowledge, expertise and customer relationships to grow gas services business.

The Wellhead to Pipeline Connection

making connections

FIELD GATHERING AND PROCESSING (FG&P)

The FG&P segment included more than 6,000 kilometres of associated raw natural gas gathering lines moving natural gas from producing wells to AltaGas' 73 natural gas field gathering and processing facilities by February 2006. The processing facilities remove impurities and certain hydrocarbon components from natural gas and compress the gas to meet the operating specifications of downstream pipeline systems that deliver the gas to domestic and export energy markets. We operate 70 of these processing facilities, and have a total gross processing capacity of 997 Mmcf/d, including 262 Mmcf/d of sour gas capacity.

AltaGas has grown rapidly based on a strategy for field gathering and processing facility expansion, acquisition and development that is unique in the Canadian midstream market. This strategy involves:

- Maintaining flexibility and improving profitability by investing in moveable assets that can be easily and quickly redeployed to new locations;
- Offering customers diverse marketing opportunities through assets that often access more than one downstream transportation pipeline;
- Acquiring and maintaining large working interests in assets;
- Controlling operations and increasing efficiency;
- Reducing overall business risk through geographical and customer diversity;
- Acquiring underutilized assets that offer upside through increased throughput;
- Building new facilities in response to producer demand;
- Expanding our reach into B.C. and northern Alberta where there is strong producer activity and need for added infrastructure;
- Constructing or acquiring and connecting complementary facilities to create large facility complexes; and
- Maintaining strong operational excellence.

AltaGas refrains from transactions that it evaluates to be overpriced and not necessarily accretive to net income. Currently, high prices for acquisitions make it generally more attractive to grow organically by expanding and building facilities. We continue to lever our relationships with producers to grow our existing business.

In 2005 we continued growing the FG&P segment in line with our disciplined investment criteria, investing more than $50 million in existing and new operating areas in response to producer requirements.

We continued to enhance our already strong safety and environmental management systems and saw improved external audit scores as a result. Operator training was also a focus in 2005, making our field employees among the safest and best-trained in the industry.

AltaGas recognizes its environmental responsibility and works diligently to minimize its impact on the environment and the communities in which it operates. In 2005 the Shaunavon, Saskatchewan gas plant began processing natural gas that had previously been flared into the atmosphere. We plan to develop acid gas injection facilities at our Princess gas plant in 2006, which will virtually eliminate carbon dioxide and sulphur dioxide emissions from that plant, and continue to assess similar opportunities at other sour gas processing facilities.

EXTRACTION AND TRANSMISSION (E&T)

AltaGas' extraction assets include interests in four of the 10 NGL extraction plants in western Canada: two at Empress, Alberta; one at Joffre, Alberta; and one at Edmonton, Alberta. AltaGas also owns the Bantry field fractionation facility near Brooks, Alberta. Our net raw gas licensed inlet capacity at these plants totals 539 Mmcf/d.

Large extraction plants are located straddling high-volume pipeline transmission systems that transport natural gas to end-markets. Extraction plants reprocess the gas, recovering volumes of residual ethane and NGLs from the natural gas stream.

Our transmission pipelines provide natural gas and condensate transportation services between processors and distribution systems, end-users or other downstream pipelines. They include the Battle Lake, Cold Lake, Suffield and Summerdale natural gas pipeline systems in Alberta and the Kahntah pipeline in B.C., in addition to the Porcupine Hills condensate pipeline in Alberta.

AltaGas' E&T facilities are long-life assets underpinned by long-term contracts with little exposure to commodity price risk. They contribute to stable, long-term cash flows.

Well Connected to Natural Gas Producers

FIELD GATHERING AND PROCESSING

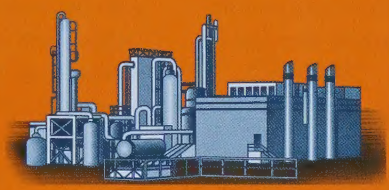
What AltaGas Offers

- Ability to rapidly tie in new wells – more than one per day
- Third-party processing giving producers open, equitable access to processing facilities
- Interconnected processing facilities that enhance flexibility and reliability of operations. Plant reliability was in excess of 98% in 2005
- 70% of compression assets are skid-mounted and can be redeployed quickly to areas of high or new activity
- Connections with downstream transmission pipelines give access to major natural gas export pipelines and markets

Customers and Contracts

- Serving more than 240 producers with volumes ranging from less than 1 Mmcf/d to more than 50 Mmcf/d
- Flexible contract terms include fee-for-service arrangements on a rate per Mcf processed, take-or-pay contracts, and operating and capital cost recovery contracts
- Expand to meet the needs of producers who commit their product to AltaGas facilities

EXTRACTION AND TRANSMISSION

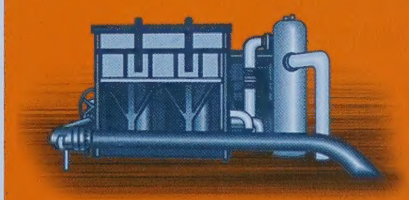


What AltaGas Offers

- Working interests in four of the 10 NGL extraction plants in western Canada – two at the major Alberta export point and two at intra-Alberta gas consumption points
- 13,155 Bbls/d of ethane production sold at the plant gate in 2005 to international petrochemical companies operating in Alberta
- NGL production of 6,202 Bbls/d in 2005
- Operational expertise as operator of Edmonton and Bantry facilities

Customers and Contracts

- Supply contracts with producers, as well as Energy Services customers
- All ethane production sold under long-term arrangements based on cost-of-service or fixed-fee contracts, with no commodity price risk
- 78% of NGLs sold under long-term contract, with no commodity price exposure
- For remaining NGL production, downside exposure to commodity prices is capped due to commercial and operational (re-injection) capability



What AltaGas Offers

- Pipelines with high reliability and low operating costs
- Access to production facilities and natural gas markets

Customers and Contracts

- Main shippers are producers and marketers
- Majority of operating margin based on a long-term, fixed-fee contract with volume commitments from an "A" credit-rated customer

BOTTOM LINE

Stable, Predictable Net Income

AltaGas and the Western Canada Sedimentary Basin

making connections

AltaGas is well positioned to take advantage of continued strong activity in the WCSB.

AltaGas' three main areas of operation for its natural gas gathering and processing facilities are the Northwest, Central and Southern areas shown on the map on the facing page. In 2004, high natural gas prices provided impetus for more than 15,600 gas well completions and an average 16.5 Bcf/d of marketable gas production in the WCSB. Raw natural gas production in AltaGas' areas increased to 14.8 Bcf/d in 2004, almost 77 percent of total WCSB raw gas production, up from 14.7 Bcf/d in 2002. High activity and production continued through 2005, with gas well completions estimated at more than 15,300 and average marketable production estimated at 16.6 Bcf/d. AltaGas' FG&P segment continued to capitalize on the robust activity, connecting more than 450 wells in 2005. Our average facility utilization was 60 percent, which we believe is well above the average for the industry as a whole.

We believe there are significant growth opportunities for our FG&P business by adding incremental processing volumes to our existing infrastructure and developing new facilities to serve growing demand for our services.

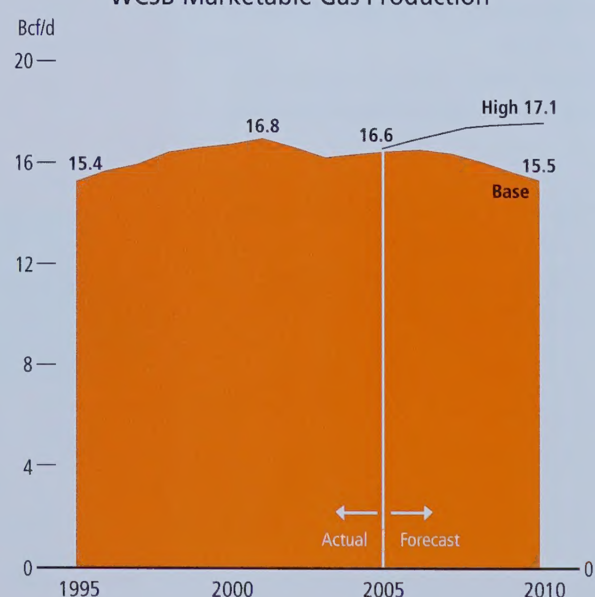
The average cost associated with drilling in AltaGas' three core areas tends to be lower on a full-cycle basis than in deeper areas of the WCSB, resulting in higher netbacks to producers in our regions. Compared to undeveloped drilling areas, existing gathering and processing infrastructure in mature production areas like our Central and Southern areas allows producers to get their gas to market faster. AltaGas is able to provide producers in its core areas with quick access to processing services, allowing them to realize a return on their investment more quickly than in areas with less developed infrastructure and higher drilling costs.

AltaGas is poised to take advantage of investment opportunities that arise in the WCSB in the future. We will continue to optimize and expand the capacity of our existing field gathering and processing infrastructure to fit each area's production profile, in addition to pursuing accretive acquisitions. The disposal and redeployment of assets from the Winefred facility in the first quarter of 2005 in response to the Alberta Energy and Utilities Board's decision on gas over bitumen production, and the expansion of the Princess sour gas plant – an extension of the existing Bantry operations that went into service in January 2006 – are examples of this successful strategy. We will continue our strategy of owning and operating skid-mounted facilities. We will extend our reach westward to capitalize on growing production activity in these areas, such as our recent, new Blair Creek and Clear Prairie facilities.

Natural gas production in the WCSB is forecast to remain strong. Producers continue to focus on development drilling, which is replacing natural declines in current production areas. Several of AltaGas' core service areas are located in the main coal bed methane production area. This natural gas requires dehydration and compression – both core competencies for AltaGas – and tends to have a slower decline profile, which is ideal for the FG&P business. We see coal bed methane as a growth opportunity.

AltaGas' connection to the WCSB extends across Canada. By providing services along the energy value chain, we enhance our margins. We market natural gas and NGLs on behalf of producers and connect their supply to downstream markets, increasing the utilization of our extraction plants and transmission pipelines. Our experience in the WCSB, combined with our knowledge of long-haul transportation systems and natural gas markets, allow us to enhance returns from capital investment in FG&P and E&T assets through to our Energy Services business, a segment we see providing diversity and strong growth potential for AltaGas.

WCSB Marketable Gas Production

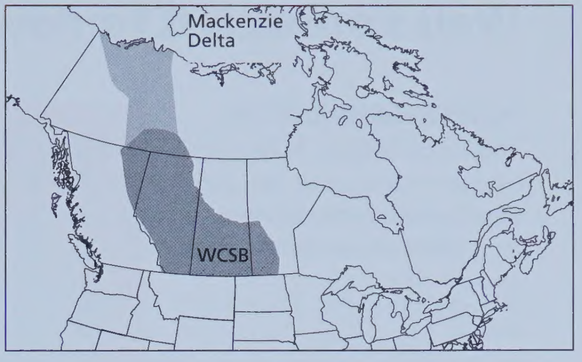


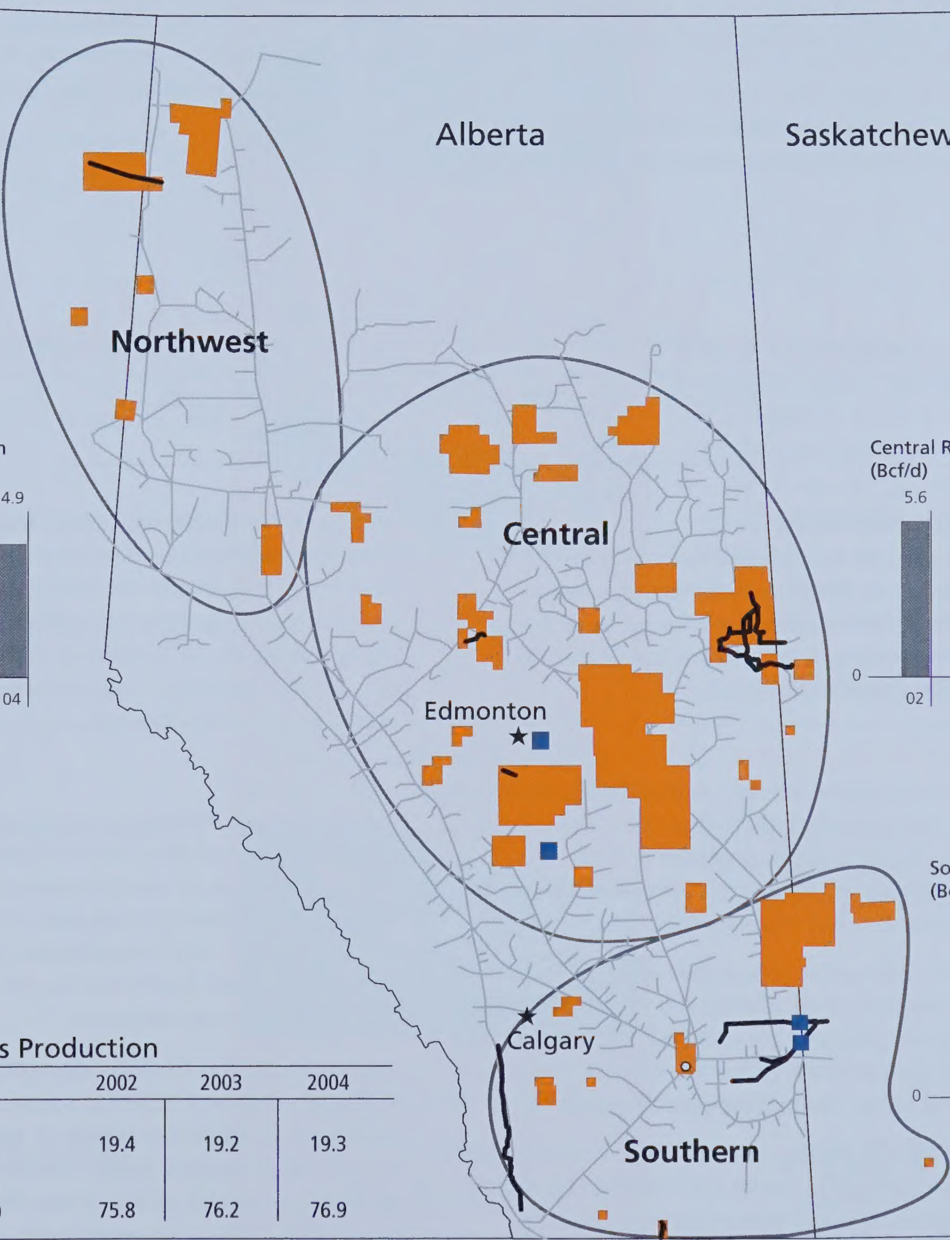
Source: Ziff Energy Group.

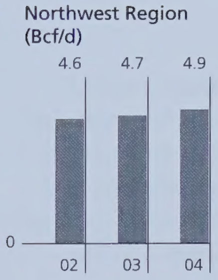
Well Connected to the WCSB

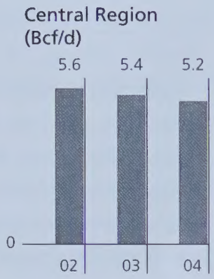
Legend

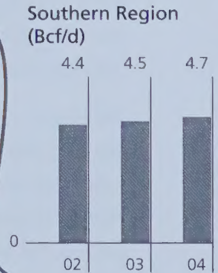
- AltaGas Field Gathering and Processing Area
- AltaGas Extraction Plant
- AltaGas Fractionation Plant
- AltaGas Transmission Pipeline
- TransCanada Pipeline
- AltaGas Region











WCSB Raw Gas Production

	2002	2003	2004
Total WCSB raw gas production (Bcf/d)	19.4	19.2	19.3
Production located in AltaGas regions (%)	75.8	76.2	76.9

Source: Ziff Energy Group

Well Connected to Power and Natural Gas Customers

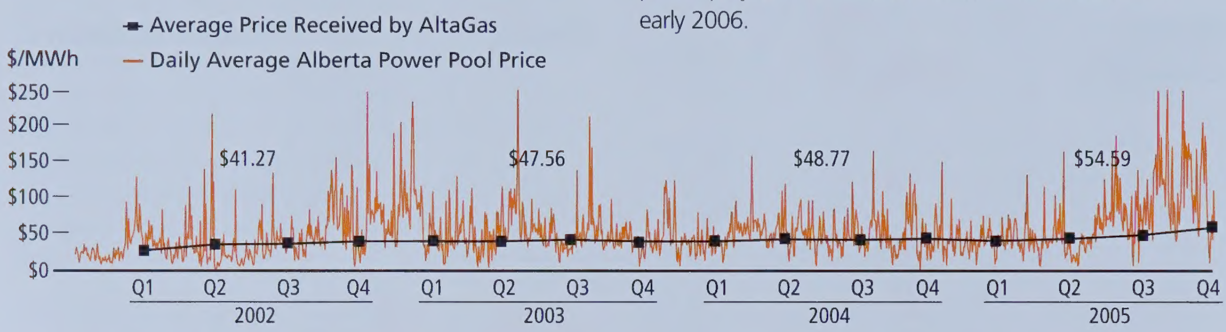
POWER GENERATION

AltaGas participates in Alberta's power market through long-term contractual ownership of 353 MW of power capacity from two coal-fired power plants and a lease for 25 MW of gas-fired peaking plant capacity.

AltaGas sells power and ancillary services into the Alberta Power Pool. The price of power is set through a competitive bidding process whereby the highest marginal bid price is the price received by all power suppliers in any given hour from the Alberta Power Pool. AltaGas uses hedges to fix the forward selling prices on a significant portion of its available capacity, thereby reducing exposure to the volatility of power prices and providing increased stability to margins.

AltaGas' coal-fired power assets are among the lowest-cost generators in the province. AltaGas' gas-fired generating assets are used in part to backstop potential operating downtime at the coal-fired plants and to provide fuel and supply diversity. They also provide additional energy and reserve capacity.

We intend to expand our Power Generation business by acquiring, building and operating assets in Canada and the northern U.S., including renewable generation such as our initial investment in the proposed Bear Mountain wind power project near Dawson Creek, B.C. announced in early 2006.



ENERGY SERVICES

AltaGas provides energy management services for natural gas and electricity in the Energy Services segment, as well as other gas services. Both the gas services and energy management businesses are expected to grow in 2006.

Energy Management

AltaGas is a national energy management services provider to non-residential energy users, including hotel chains, agricultural associations, retail merchandise chains, mid-sized manufacturers, health care associations and municipalities.

We allow customers to reduce their exposure to natural gas and electricity price volatility and match their energy supply contracting practices with their risk tolerance and budget objectives. Most of this fee-for-service business is carried out under one to three-year contracts.

AltaGas' energy management business is conducted under the ECNG, iQ2 Power and PremStar Pacific brand names. The iQ2 business was acquired on November 3, 2005, adding a significant electricity retail presence in Alberta, including 700 mid-market accounts and a strong billing system.

AltaGas is well-positioned to be a major national energy management services provider, leveraging its expertise in natural gas and electricity. Our systems allow us to provide industry-leading balancing and billing services to our customers. We expect to grow through the addition of new customers and the extension of service offerings.

Gas Services

AltaGas markets natural gas for producers, and also sources natural gas from other wholesale marketers for resale through its energy management business to retailers and commercial end-users. AltaGas also buys and sells storage and transportation capacity. By matching volumes and terms, margins are locked in at the time the transactions occur.

AltaGas adds value through aggregation of demand, providing customers access to supply alternatives, and through its in-depth knowledge of gas markets and transportation systems across Canada and at major pipeline connections to the United States. AltaGas' gas services provide low-risk margins without significant investment in capital assets.

making connections

Well Connected to the End-Use Markets

Power Generation | **Energy Services**

SUPPLY SOURCE

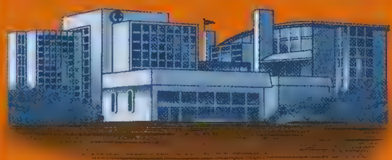
Power Generation

- Long-term power purchase arrangements
- Gas-fired peaking plants

Energy Services

- Natural gas sourced from producers and wholesale marketers with whom AltaGas has strong relationships and from AltaGas system producers

CUSTOMERS



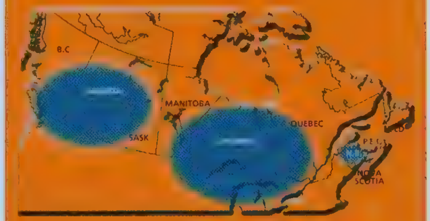
Power Generation

- The Alberta Electric System Operator
- Large financial institutions
- Energy management customers
- Internal use by FG&P and extraction facilities

Energy Services

- National hotel chains and retailers; hospitals; agricultural aggregators; major office buildings; and large apartment complexes
- Energy marketers and utilities

MARKET REACH



Power Generation

- Supplies 6% of Alberta's electricity demand
- Sells ancillary services in Alberta

Energy Services

- More than 1,200 contracts with customers across Canada through iQ2 in Alberta, ECNG in Ontario and Quebec; and PremStar Pacific in B.C.
- ECNG is one of Canada's largest energy management services providers
- In B.C., Alberta and Ontario, PremStar is a leading wholesale gas marketer, buying and selling gas supply, storage and transportation

CONTRACTS AND RISK MANAGEMENT

Power Generation

- Risk mitigation through power price hedging

Energy Services

- A diverse portfolio of long-term, fixed-margin contracts and fee-for-service contracts

BOTTOM LINE

Stable, Predictable Net Income

Power Generation

$54.59/MWh

Average Power Price Received in 2005

Energy Services

95%

Renewal Rate of Energy Management Contracts

Well Connected Utilities

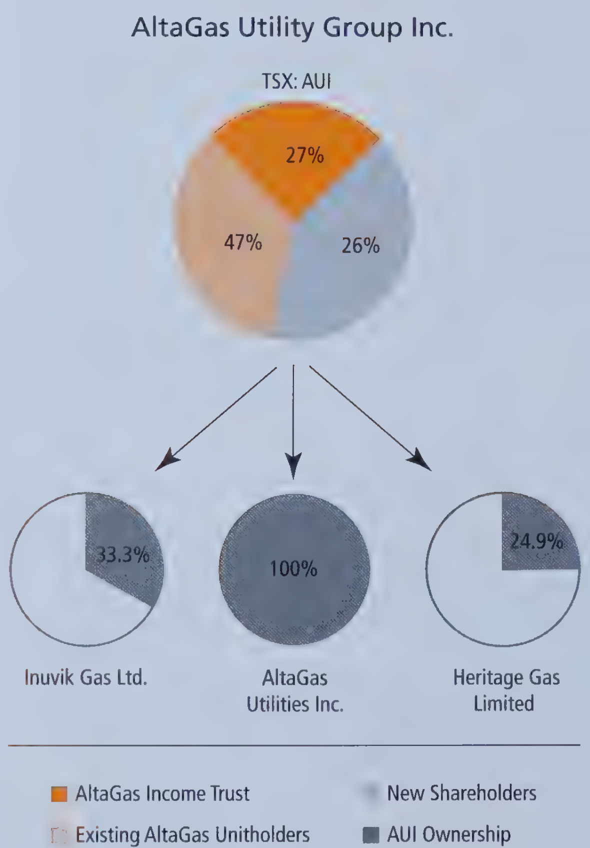
making connections

NATURAL GAS DISTRIBUTION

In late 2005 AltaGas' Natural Gas Distribution (NGD) segment, which had provided rate-regulated utility earnings since acquisition of the first distribution company in 1998, was spun out into a separate, publicly traded company, AltaGas Utility Group Inc. (Utility Group). The spin-out was designed to improve unitholder value, as rate-regulated businesses were deemed to be better-suited to a corporate structure than to trust structure ownership.

Utility Group comprises interests in three regulated natural gas distribution utility companies in geographically diverse areas of Canada. At year-end 2005, Utility Group had almost 63,000 customers, had delivered 24.5 Petajoules of natural gas over the year and had 183 employees.

CORPORATE STRUCTURE



Wholly owned AltaGas Utilities Inc. is the largest operating utility within Utility Group. It has been delivering gas in many of Alberta's smaller cities and rural areas for more than 50 years. According to the Canadian Gas Association, it has one of the best safety records of any natural gas utility in Canada. It is a well-established, mature base providing stable cash flows to its new parent.

Heritage Gas Limited is the first natural gas distribution franchise to deliver natural gas to consumers in Nova Scotia. The greenfield utility has made inroads into the Nova Scotia energy market since its first gas delivery in late 2003. It is expected to contribute to Utility Group's growth over the next several years as it builds a natural gas delivery infrastructure to meet fuel conversion demand in Nova Scotia. Utility Group owns almost one-quarter of this exciting new business.

Utility Group is further diversified through its one-third interest in Inuvik Gas Ltd., which began in 1999 and is the first commercial natural gas distribution project north of the Arctic Circle. This utility is subject to light-handed regulation by the Northwest Territories Public Utilities Board and has market-based rates, which is different from the regulatory return model of the other two companies. In 2005 Inuvik Gas Ltd. won its sixth consecutive North American Occupational Safety and Health award for the 1-20 employees category.

All three distribution companies offer natural gas delivery service to a broad range of customers, including residential, commercial, agricultural and industrial. Each has long-term franchises and serves markets where it is the sole source of natural gas delivery.

AltaGas Income Trust is pleased to have been part of the success of the NGD segment since 1998. During this period, customers increased by 20 percent. AltaGas was one of the founding shareholders of the Inuvik and Nova Scotia natural gas distribution companies. The NGD segment is now owned by Utility Group and we believe that this new, publicly traded corporation provides investors with an investment in a stable business with significant growth potential. AltaGas holds a 26.7 percent interest in the new company, which trades on the TSX under the symbol AUI.

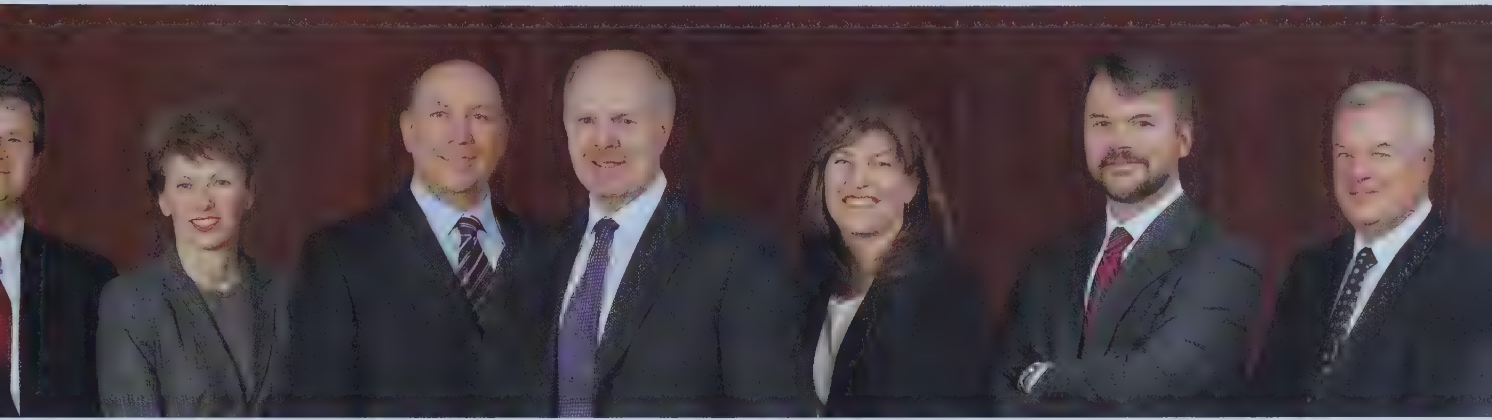
Chairman, President and Chief Executive Officer's Message to Unitholders

T E. STOUT
President
orate Resources

DENNIS A. DAWSON
Vice President, General Counsel
and Corporate Secretary

NANCY A. ANDERSON
Vice President
Business Development

MARSHAL L. THOMPSON
Senior Vice President
Gathering and Processing



PATRICIA M. NEWSON
Senior Vice President Finance
and Chief Financial Officer

DAVID W. CORNHILL
Chairman, President and
Chief Executive Officer

JAMES B. BRACKEN
Senior Vice President
Energy Services

The AltaGas Executive Team: Well Connected To Performance

Our philosophy has always been that the best measures of a business' long-term viability and value are its net income, cash flow and return on equity. The importance of these traditional financial measures is not a function of the business' legal structure or tax status but is driven by sound business fundamentals. We converted to a trust structure in 2004, but we continue to operate our business as though it was a corporation, albeit a tax-efficient one. With that in mind I am pleased to report that in 2005, our first full year as an income trust, AltaGas delivered financial and operating success in pursuing long-term value creation for our unitholders. Our disciplined approach to managing our business remained true to our proven business principles. We continued to focus on the key financial metrics that we have relied upon to drive our financial performance since AltaGas' inception in 1994.

By positioning ourselves strategically along the energy value chain, from the wellhead and power generation to energy services, we link the energy producer to the energy end-user. Far from a static entity operating the same assets year after year, AltaGas is a growth business. We have created a suite of businesses that serve the growing North American demand for natural gas and power, and we are pursuing a strategy to increase our portfolio of assets and services in business lines in which we have expertise.

The year's results support our philosophy and ability to execute our strategy. Overall net income of $90 million was up by 37 percent over 2004, while net income per unit of $1.67 represented year-over-year

growth of 26 percent, our twelfth consecutive record. Funds from operations increased by 18 percent, to $128 million. The FG&P segment continued to tie in a high number of wells, resulting in capacity additions and strong throughput of natural gas. The Energy Services segment's activity and customer base increased, and higher power prices drove the growth in the Power Generation segment's operating income.

AltaGas funded its $78 million growth program from internal cash flows and the DRIP program. For 2005, AltaGas' unitholders enjoyed a total return of more than 31 percent. The total value of distributions was $2.38 per unit, including $1.84 per unit in cash distributions received and $0.54 per unit from the Utility Group share distribution. Cash distributions paid of $99 million for the year included an increase in the monthly distribution announced in August, but represented only 77 percent of funds from operations, retaining capital to fund future growth.

SIGNIFICANT EVENTS

In late May AltaGas announced it would spin out its Natural Gas Distribution segment into a separate, publicly traded corporation. AltaGas Utility Group Inc. started trading on the TSX on November 17 at an initial price of $7.50 per share. AltaGas unitholders received one common share for approximately every 14 units of AltaGas Income Trust held, representing 47 percent of the new corporation's equity. New shareholders purchased 26 percent and the Trust has retained the balance.

Patricia Newson, Senior Vice President Finance and Chief Financial Officer of AltaGas, was appointed Utility Group's founding CEO. Patricia has helped guide AltaGas' growth over the past 10 years, and we are confident she will bring the same level of discipline and expertise to Utility Group. During 2006 Patricia will step down as CFO of AltaGas to focus her attention on her new role with Utility Group.

In September AltaGas announced the purchase of the business of iQ2 Power Corp., an Alberta-based electricity retail business. At the time of the acquisition, iQ2 was serving a market load of about 60 MW, consisting of 700 medium-sized agricultural, industrial and commercial clients. Its employees have joined AltaGas, and we have integrated the business into our Energy Services segment, where we will actively pursue growth. The purchase represents another accretive link in the energy value chain.

“The purchase of iQ2 Power Corp., an Alberta-based electricity retail business, represents another accretive link in the energy value chain.”

The year also saw important internal developments. The significance of our operating business segments to our long-term success cannot be overstated. In June, I placed two of our business segments under the direction of senior officers. They are Marshal Thompson, Senior Vice President Gathering and Processing; and Jim Bracken, Senior Vice President Energy Services. Marshal and Jim bring a wealth of direct experience to their executive roles and provide the combination of entrepreneurial spirit, earnings focus and careful risk management that we require to flourish over the long term. Following our resegmentation, Marshal continues to lead the FG&P and E&T segments, while Jim still heads Power Generation and Energy Services.

I had previously announced my plans to retire as CEO during 2006. The Board requested my continued participation alongside the new business unit senior vice presidents to aid in implementing the Trust's vision for growth. This, combined with Patricia's move to Utility Group and the need to support a new CFO at AltaGas, resulted in my November announcement that I would defer my retirement. This decision provides important continuity to the Trust's management team and allows me to continue providing strategic direction through the next stage of AltaGas' evolution.

An important corporate governance matter in 2005 was AltaGas' decision not to delay the implementation of our CEO/CFO certification project to comply with securities regulations in Canada. Despite the regulators' decision to move the implementation deadline to 2007 from 2006, and since we had already begun the work required to comply, we decided to continue with the project and bear the one-time costs according to our original schedule.

NET INCOME

Our prime objective at AltaGas is building long-term value, and that is why our ongoing focus is on net income. It shows if we are living within our means, if our assets are continuing to deliver value, and if our debt levels are reasonable. To maintain a strong balance sheet – to support growth – it is critical we continue to grow our equity. Focusing on net income supports this financial strategy. We maintain a conservative risk profile in part by focusing on acquisitions that add to net income per unit and return on equity, representing real value for our unitholders. We refrain from transactions that we evaluate to be overpriced and unlikely to be accretive to net income.

"Overall net income of $90 million was up by 37 percent over 2004, while net income per unit of $1.67 represented year-over-year growth of 26 percent."

The sustained economic boom in the WCSB has brought with it higher general and administrative costs. At the same time, increased corporate governance standards over the past several years have also driven up ongoing costs of doing business. In terms of the wider economy, natural gas prices continued to be very high, driving record industry field activity and higher electricity prices. AltaGas was vigilant in managing costs over the year and continued to work effectively to mitigate effects of the price escalation for industry-related goods and services, from steel pipe and machinery to labour, that has accompanied western Canada's sustained energy boom. Our key competency is to construct and expand facilities on-time and on-budget, bringing on expansions and new construction faster than our competitors. We expect to maintain and strive to improve on this competitive advantage.

The strength of our existing assets and service offerings and our growth plans provide an optimistic earnings outlook. We were the only independent midstream operator in Canada to build new plants in 2005, investing more than $50 million on organic growth in our FG&P segment. We announced nearly $30 million of investment to commission three facilities with combined capacity of 59 Mmcf/d by early 2006, which will contribute to higher earnings in 2006.

"AltaGas was the only independent midstream operator in Canada to build new plants in 2005, investing more than $50 million on organic growth in our FG&P segment."

We remain committed to growth in financial performance. Earnings drive value creation. Higher earnings and cash flow drive our ability to increase distributions to unitholders. Our goal is to continue delivering sustainable and predictable distributions to our unitholders, supported by sound economics and traditional financial metrics.

DISTRIBUTIONS

AltaGas converted from a corporate to a trust structure on May 1, 2004, with an opening monthly distribution of $0.15 per unit. In August 2005 the Board increased the monthly rate to $0.16 per unit and November saw a one-time distribution of $0.54 per unit in the form of Utility Group shares. We believe earnings growth must remain ahead of cash distribution growth to ensure that we maintain unitholders' equity and the ability to sustain distributions over the long term. As we say: "You need to earn it before you can spend it." We maintain financial flexibility to respond to growth opportunities and to smooth out cyclical variations, and we will increase distributions only when fully supported by our business growth and financial results.

AltaGas' conversion to an income trust has brought clear benefits. From the unitholders' perspective, our ability to distribute cash flow as monthly cash distributions has enhanced unitholder value. However, I believe that a business enterprise's structure does not define its philosophy or ensure its success – the management team does. Our track record speaks strongly in this regard.

GROWTH

AltaGas is well-positioned for growth. We are one of Canada's largest and fastest-growing integrated energy businesses. Our competitive advantages include long operating experience and strategic geographical positioning. There is continued opportunity for growth in our business lines. Our balance sheet is strong and our access to capital is enviable. We have the expert technical and management people required to implement our vision.

> **"AltaGas is positioned to make capital expenditures, for internal growth projects or acquisitions, of up to $100 million over 2006 without going to the equity markets."**

The combination of a strong balance sheet and strong cash flow and net income places us in a very attractive financial position. Following the NGD segment's spin-out, AltaGas has even more capacity to finance capital expenditures for internal growth projects or acquisitions. We can spend up to $100 million over 2006 without going to the equity markets.

In August 2005 the Trust replaced $100 million in unsecured medium-term notes maturing October 4, 2005 with new notes bearing almost 3 percent lower annual interest. The interest savings of approximately $3 million per year (approximately $0.05 per unit) will go directly to the Trust's bottom line and add to distributable cash in 2006. The lower cost of capital will also increase the range of profitable growth options we can consider.

Asset prices are an important issue in the North American energy business. Last year we saw acquisition opportunities in our business lines valued at $2 billion. Although we evaluated numerous possibilities, we concluded that the large ticket opportunities were too expensive to create long-term value for AltaGas' existing unitholders. We believe that it is better to maintain financial discipline than to overpay for assets, and that the returns and cash flows of our combined smaller investments are superior to the larger, expensive offerings we chose not to pursue.

That said, we continue to evaluate acquisition opportunities and we currently see several interesting possibilities. However, if acquisition metrics remain unworkable for long-term value creation, our unitholders should bear in mind that increased cash flows and earnings from existing investments continue to represent a very good return.

AltaGas aims to grow as rapidly as good-quality, favourably priced opportunities allow. On the FG&P side, there are significant opportunities to service the very active natural gas-producing sector throughout the WCSB. Our value-proposition to producers is compelling: AltaGas creates a financial premium by quickly getting natural gas volumes on-stream. Rather than investing in their own gathering and processing infrastructure, producers are able to deploy their capital into their core business.

We are focused on consolidation and expansion of assets in our existing northwest, central and southern areas of the WCSB, which have been experiencing high replacement rates of reserves and where coal bed methane could account for up to 10 percent of our throughput by the end of 2006. In addition, our plan will see us expand further west into new areas for AltaGas, extending our geographic reach. The three processing plants announced in 2005 – at Princess in eastern Alberta, at Clear Prairie in northwest Alberta, and at Blair Creek in northeast B.C. – demonstrate this plan in action. We envision organic growth opportunities, including construction of new facilities and expansion of existing facilities, valued at more than $40 million in 2006 and further opportunities for several years to come in our FG&P segment.

The Power Generation business also presents growth opportunities. We intend to pursue opportunities for renewable energy, as well as for natural gas-fired electricity, increasing our owned and operated power generation capacity when opportunities are supported by long-term contracts. An example of this is our joint venture with Aeolis Wind Power Corporation to pursue the development of the proposed Bear Mountain wind power project near Dawson Creek, B.C. We will also work to build on our success in the Energy Services business, which generates fees in a conservative, low-risk manner.

> **Our imperative is profitable growth resulting in real, long-term value creation and sustained returns for unitholders.**

In implementing our growth plans, our principal task is to put our unitholders' capital to productive work. Growth is easy; sustainable and profitable growth with genuine value-creation is more difficult. AltaGas is not driven by growth for growth's sake. Our imperative is profitable growth resulting in real, long-term value creation and sustained returns for unitholders. We have a track record of success and we will maintain it.

EMPLOYEES, SAFETY AND COMMUNITY

AltaGas is committed to our more than 480 employees, their workplace safety and their continuous learning and development. AltaGas' safety record continued to be strong in 2005.

Early in 2005 we announced a partnership with the Alberta Shock Trauma Air Rescue Society (STARS). STARS is a charitable organization providing emergency aero-medical transportation to critically ill and injured patients in Alberta and parts of B.C. In September AltaGas announced a donation of $300,000 over a number of years. The funds will support acquisition of new helicopters to expand the STARS service range in a wider variety of flying conditions. These improvements will expand services to all of AltaGas' FG&P facilities, directly benefiting our employees. AltaGas facilities have been entered in the STARS Emergency Link Centre database. Calling the link centre and stating the facility's emergency link number will enable STARS to access detailed information including a GPS location, navigational information and proximity to highways, hospitals and other emergency services.

AltaGas continues to be an active participant in the communities where we live and work. Last year we received Platinum status from the United Way of Calgary and Area for the tenth year out of the past twelve, signifying that more than 90 percent of employees contributed to our annual campaign. We raised $206,000, up substantially over 2004. The campaign was honoured with the Spirits of Gold Award of Excellence in its category by United Way of Calgary and Area, recognizing AltaGas' commitment to the community.

To support our employees' retirement planning, AltaGas moved from an optional registered retirement savings plan to a defined-contribution pension plan in 2005. Every employee now receives an employer contribution into the plan, and further employee contributions are partially employer-matched. The pension plan is just one example of the many ways that AltaGas seeks to continually enhance programs and services, whether for customers or employees. Our efforts continue to gain recognition. For the past four consecutive years, MediaCorp has named AltaGas one of Canada's Top 100 Employers.

> **MediaCorp has named AltaGas one of Canada's Top 100 Employers for the past four consecutive years.**

Let me express my gratitude to all of AltaGas' employees in all our locations for their continued efforts to make AltaGas the successful, profitable and growing enterprise it continues to be. In addition, I would like to express my appreciation to the employees of AltaGas Utilities Inc. who are leaving the fold after having been with us since 1998. They have the skills and experience to remain one of Canada's best and safest utilities, and will carry on the task of taking AltaGas Utilities Inc. to new performance levels. I believe that they are the cornerstone of the continued success of Utility Group.

Thanks to the high quality of the AltaGas team, and to the continued support of our unitholders, I look forward to the coming year with optimism.

DAVID W. CORNHILL
Chairman, President
and Chief Executive Officer

Well Connected to Investors

BOARD OF DIRECTORS

ROBERT B. HODGINS
Director

DENIS C. FONTEYNE
Director

DAVID W. CORNHILL
Chairman, President and Chief Executive Officer

ALLAN L. EDGEWORTH
Director

JOHN B. BREEN
Director

DARYL H. GILBERT
Director

DAVID F. MACKIE
Director

MYRON F. KA
Lead Director

Corporate Governance

As members of the Board of Directors of AltaGas General Partner Inc., elected by the Trust at the direction of the unitholders to manage or supervise the management, business and affairs of the Trust, it is our responsibility to ensure that the interests of unitholders and other stakeholders are properly represented. To that end, the Board of Directors has assumed responsibility for stewardship of the Trust and has developed standards and procedures for its operations that meet the highest standards of governance. We regularly review the activities of the Trust with a view to ensuring its business affairs are conducted appropriately, with the honesty, integrity, transparency and accountability that unitholders expect. We are committed to continuing to direct the activities of the Trust to those high standards.

On behalf of the Board of Directors:

MYRON F. KANIK
Lead Director

AltaGas believes that good governance improves performance and benefits all unitholders. AltaGas is committed to the highest standards of governance. The following is a summary of the Trust's Governance Practices. A more detailed description of the Trust's practices can be found in the Trust's Information Circular filed on the SEDAR system.

STATEMENT OF GOVERNANCE PRACTICES

Mandate of the Board

The Board of Directors of the General Partner exercises overall responsibility for the management and supervision of the affairs of the Trust. This includes the appointment of the Chief Executive Officer and senior officers of AltaGas Ltd. and AltaGas General Partner Inc., approval of their compensation and monitoring of the Chief Executive Officer's performance.

The Board of Directors also reviews and adopts an annual strategic plan. Key objectives, as well as quantifiable operational and financial targets, and systems for the identification, monitoring and mitigation of principal business risks are incorporated into the annual strategy review.

The Board of Directors ensures that a process is established that adequately provides for succession planning, including the appointing, training and monitoring of senior management.

In 2005 the Board of Directors approved an Accounting and Auditing Irregularity Reporting Policy.

BOARD COMPOSITION

The Board currently comprises eight Directors, seven of whom are independent. Mr. David Cornhill, Chairman, President and Chief Executive Officer of AltaGas General Partner Inc., is the only member of the Board of Directors who is also a member of management.

Board Committees

The Board has four standing committees: Governance; Audit; Environment and Safety; and Human Resources and Compensation. The Governance, Audit and Human Resources and Compensation committees are composed of only non-management, independent directors. The Environment and Safety Committee includes a majority of non-management, independent directors. The Chairman, President and Chief Executive Officer of AltaGas General Partner Inc. serves on the Environment and Safety Committee. Each of the committees has a Board of Directors-approved mandate that prescribes its composition and responsibilities, as well as administrative duties.

Governance Committee

The Governance Committee is responsible for identifying individuals qualified to become Board of Director members, and recommends to the Board of Directors proposed nominees for election to the Board of Directors, and Board of Directors compensation. The Committee is also responsible for reviewing, reporting and providing recommendations for improvement to the Board with respect to all aspects of governance. The Governance Committee, on a periodic basis, assesses the effectiveness of the Board of Directors as a whole, the Committees of the Board of Directors and the contributions of individual members. As well, the Committee is responsible for the orientation and education of new members of the Board of Directors and continuing development of existing members of the Board of Directors.

Audit Committee

The Audit Committee comprises three independent and financially literate Directors who oversee the Trust's financial reporting process on behalf of the Board of Directors. The Audit Committee reviews, reports and provides recommendations to the Board of Directors on the annual and interim financial statements, including the completeness and accuracy of financial reporting of the Trust; the adequacy of risk management processes; the adequacy of its internal control system for financial reporting and disclosure; and the appointment, terms of engagement, provision of non-audit services and proposed fees of the independent auditor. The Audit Committee meets regularly in-camera with the external auditor and the Trust's Internal Audit department without management present.

Environment and Safety Committee

The Environment and Safety Committee is responsible for reviewing, reporting and making recommendations to the Board of Directors on the Trust's policies and procedures with respect to environment and occupational health and safety.

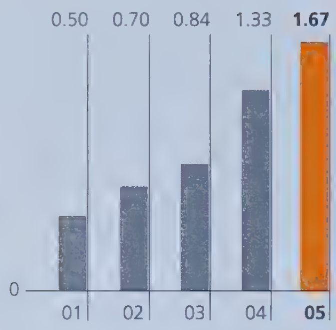
Human Resources and Compensation Committee

The Human Resources and Compensation Committee reviews, reports and provides recommendations to the Board of Directors on the compensation of the Chief Executive Officer and the appointment and compensation of senior corporate officers, succession plans, the compensation policy for all other employees and the approval of all grants of unit options.

Management's Discussion and Analysis

How we performed in 2005

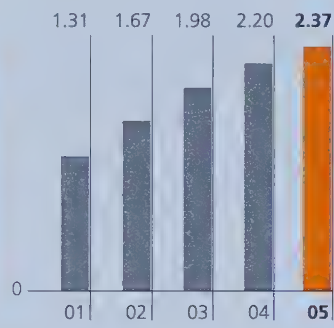
Net Income per Basic Unit ($)



Cumulative average growth of 35%

page 24

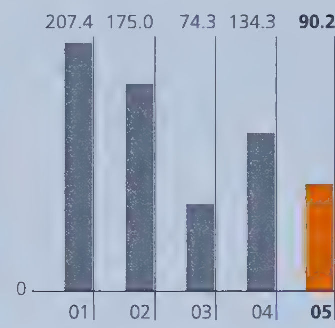
Funds from Operations per Basic Unit ($)



Cumulative average growth of 16%

page 40

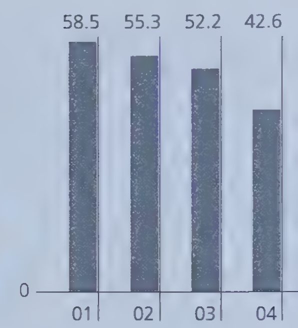
Invested Capital ($ millions)



Total of $681.2 million invested in last five years

page 37

Debt as a Percent of Total Capitalization (%)



Below target of 40-45% to support growth strategy

page 41

$90.3 MILLION

NET INCOME

page 24

$128.2 MILLION

FUNDS FROM OPERATIONS

page 40

$1.1 BILLION

TOTAL ASSETS

page 23

$269.0 MILLION

TOTAL DEBT

page 41

2005 Performance Drivers

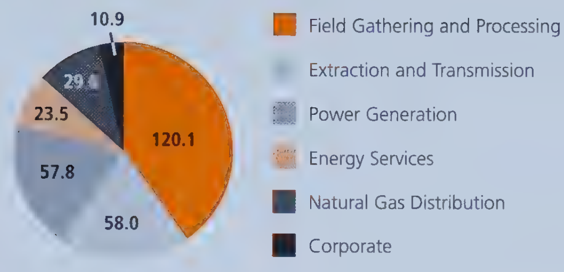
- *Strong operating performance and contributions from acquisitions and expansions*

- *Higher power prices received*
- *Gain on sale of Taylor NGL Limited Partnership units*

- *Spin-out of Natural Gas Distribution segment in mid-November 2005*

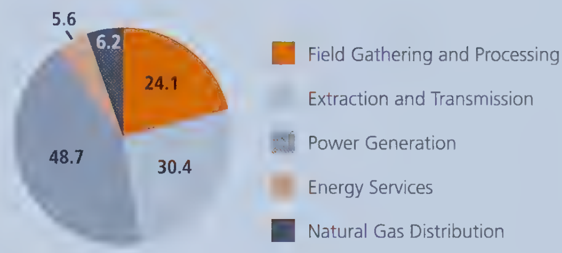
- *Higher costs due to expansions and growth of the business*

Net Revenue



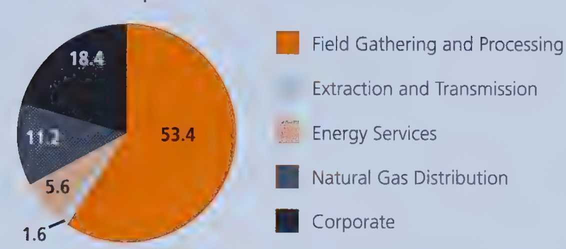
Before intersegment eliminations page 70

Operating Income



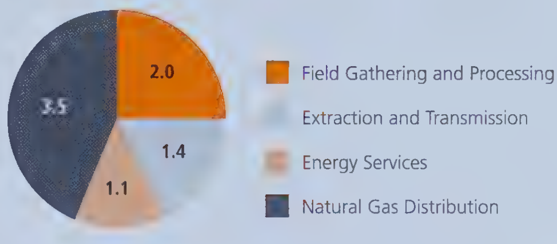
Excluding Corporate Segment page 27

Invested Capital



page 37

Maintenance Capital



page 37

$296.9 MILLION

NET REVENUE

page 24

$108.1 MILLION

OPERATING INCOME

page 27

$90.2 MILLION

INVESTED CAPITAL

page 37

$8.0 MILLION

MAINTENANCE CAPITAL

page 37

Contents

The Management's Discussion and Analysis (MD&A) of operations and financial statements presented herein reports on a continuity-of-interest accounting basis which recognizes AltaGas Income Trust (AltaGas or the Trust) as the successor to AltaGas Services Inc. (ASI). This MD&A dated March 1, 2006 is a review of the results of operations and the liquidity and capital resources of the Trust for the year ended December 31, 2005, compared to 2004. It should be read in conjunction with the accompanying audited Consolidated Financial Statements and Notes thereto of the Trust for the year ended December 31, 2005.

This MD&A contains forward-looking statements. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Trust or an affiliate of the Trust, are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Trust's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties, including without limitation, changes in market, competition, governmental or regulatory developments, general economic conditions and other factors set out in the Trust's public disclosure documents. Many factors could cause the Trust's actual results, performance or achievements to vary from those described in this MD&A, including without limitation those listed above. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements included in, or incorporated by reference in this MD&A, should not be unduly relied upon. Such statements speak only as of the date of this MD&A. The Trust does not intend, and does not assume any obligation, to update these forward-looking statements. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Additional information relating to AltaGas can be found on its website at www.altagas.ca. The continuous disclosure materials of the Trust, filed as AltaGas Services Inc. prior to May 1, 2004, including its annual MD&A and audited financial statements, Annual Information Form, Information Circular and Proxy Statement, material change reports and press releases issued by the Trust, are also available through the Trust's website or directly through the SEDAR system at www.sedar.com.

ALTAGAS INCOME TRUST

On April 29, 2004, the securityholders of ASI voted in favour of a plan of arrangement to reorganize the business of ASI into an open-ended investment trust effective May 1, 2004. For each common share of ASI, shareholders received either one unit of the Trust (trust unit) or one exchangeable unit of AltaGas Holding Limited Partnership No. 1 (AltaGas LP#1) or AltaGas Holding Limited Partnership No. 2 (AltaGas LP#2) (trust units and exchangeable units being collectively units). As a result of implementing the reorganization, the Trust now indirectly holds through its subsidiaries and partnerships all of the assets, liabilities and businesses formerly owned by ASI. The material businesses are operated by AltaGas Ltd., AltaGas Operating Partnership, AltaGas Limited Partnership, AltaGas Power Holdings Partnership and AltaGas Pipelines Partnership, as well as AltaGas Utilities Inc. until November 17, 2005 (collectively the operating subsidiaries). The cash flow of the Trust is solely dependent on the results of the operating subsidiaries and is derived from interest earned on loans to the operating subsidiaries and from dividends or returns of capital from equity interests held within the trust structure.

AltaGas General Partner Inc., through its Board of Directors, the members of which are elected by the Trust at the direction of the holders of the units, manages or supervises the management of the business and affairs of the Trust. AltaGas Ltd. provides all management, administrative and operating services to the Trust and its subsidiaries.

DISTRIBUTIONS

AltaGas' distributions are determined giving consideration to the ongoing sustainable distributable cash flow as impacted by the consolidated net income, maintenance and growth capital and debt repayment requirements of the Trust. The Trust targets to pay substantially all of its ongoing sustainable distributable cash flow through regular monthly distributions made to unitholders.

On April 29, 2004, the Trust announced it would commence monthly distributions of $0.15 for each trust unit and exchangeable unit on June 15, 2004. AltaGas pays cash distributions on the 15th day of each month to unitholders of record on the 25th day of the previous month or in each case the following business day if the payment date or record date falls on a weekend or holiday.

On August 10, 2005, the Trust's monthly cash distribution was increased to $0.16 per unit, an increase of 7 percent from $0.15 per unit, payable to unitholders of record on August 25, 2005. For the year ended December 31, 2005, AltaGas declared cash distributions of $1.85 per unit, amounting to $100.0 million. In addition to the cash distributions shown in the following table, on November 17, 2005, the Trust completed the spin-out of its 100 percent owned subsidiary AltaGas Utility Group Inc. (Utility Group) into a separate, publicly traded corporation. As a result of the spin-out, the Trust issued one common share of Utility Group (valued at $7.50 per share) for every 13.9592 trust units held on November 14, 2005.

The following table summarizes AltaGas' dividend and distribution declaration history(1):

($ per unit)	**2005**	2004	2003
First quarter	**0.45**	0.11	0.08
Second quarter	**0.45**	0.30	0.08
Third quarter	**0.47**	0.45	0.11
Fourth quarter	**0.48**	0.45	0.11
Distribution of shares(2)	**0.54**	–	–
	2.39	1.31	0.38

(1) Dividends were paid to shareholders from first quarter 2001 through first quarter 2004. The trust conversion occurred in May 2004 and monthly distributions were declared to unitholders beginning in May 2004.
(2) One share of Utility Group was issued for every 13.9592 trust units held on November 14, 2005.

On May 20, 2004, AltaGas adopted a Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan (DRIP) for eligible holders of trust units and exchangeable units of AltaGas Income Trust, AltaGas LP#1 and AltaGas LP#2. DRIP participation generated $27.7 million in new equity through the issuance of 1.1 million trust units for the year ended December 31, 2005. Since the DRIP was introduced in May 2004, a total of $37.8 million of new equity has been contributed for a total of 1.7 million new units as of December 31, 2005. Complete details on DRIP are available on the AltaGas website at www.altagas.ca.

Assuming a unit was held throughout 2005, for income tax purposes the Trust expects approximately 60 percent of the total distributions declared in 2005 to be taxed as property income, 5 percent as capital gains and 35 percent as return of capital. For most unitholders, the return of capital amount will reduce the cost base of their trust units for purposes of calculating the capital gains amount upon disposition of their units. Unitholders should seek independent tax advice in respect of the consequences to them of acquiring, holding and disposing of units.

DISPOSITION OF NATURAL GAS DISTRIBUTION BUSINESS

On November 17, 2005, AltaGas completed the spin-out of Utility Group through a series of transactions described below. Utility Group owns 100 percent of AltaGas Utilities Inc. (AltaGas Utilities), a one-third interest in Inuvik Gas Ltd. (Inuvik Gas) and a 24.9 percent interest in Heritage Gas Limited (Heritage Gas). Prior to the spin-out these entities comprised the Natural Gas Distribution (NGD) segment of the Trust.

The spin-out of Utility Group was completed through the following transactions:

- Immediately prior to the spin-out, Utility Group acquired from AltaGas LP#1 all the issued and outstanding shares of AltaGas Utility Holdings Inc., a wholly owned subsidiary that held the NGD business, in exchange for 7,800,000 shares issued from Utility Group's treasury;
- Unitholders of the Trust received one common share of Utility Group for each 13.9592 trust units held on November 14, 2005 (total common shares of Utility Group distributed – 3,899,895);
- The Trust completed a secondary offering of 1,716,000 common shares at the price of $7.50 per share for net proceeds of $10.7 million, which was used to repay bank debt; and
- Utility Group completed its initial public offering of 390,000 common shares at the same price of $7.50 per share for net proceeds of $2.7 million. The transaction resulted in a 1.3 percent reduction of the Trust's interest in Utility Group to 26.7 percent.

Upon completion of the transactions described above, the Trust retained 2,184,010 common shares of Utility Group. Subsequent to the change in the Trust's ownership interest in Utility Group, the investment is accounted for using the equity method with no restatement to prior periods.

Concurrent with the spin-out, AltaGas settled amounts due from Utility Group and used the net proceeds of $74.7 million to settle bank debt.

OVERVIEW OF THE BUSINESS AND STRATEGY

The Trust's vision is to be the leading integrated energy enterprise in Canada and to generate long-term value for its unitholders by pursuing operational excellence and continuing its growth and expansion through the successful execution of key strategies in each of its businesses.

AltaGas transports, processes and sells energy to create value. AltaGas:

- Physically gathers, processes and transports natural gas;
- Extracts ethane and natural gas liquids (NGLs) from natural gas;
- Markets natural gas and electrical power; and
- Converts energy across and along the energy value chain to create higher value-added products.

AltaGas' mix of assets provides stable revenue streams with minimal or managed exposure to commodity prices and has long-term cash flows. Going forward, AltaGas intends to grow each of its business segments and manage risks such as commodity prices, natural gas supply and counterparty and geographic concentration in a conservative manner.

To build long-term value, AltaGas' financial strategy is to focus on net income, as well as cash flow and return on equity. AltaGas will continue to grow its equity to maintain a strong balance sheet to support its growth strategy, which in turn supports strong and stable cash flow available for distribution to unitholders.

During the year the Trust continued to grow its integrated energy business through internal expansions and development of the Trust's current portfolio of assets, as well as through the acquisition of businesses that complement AltaGas' current operations.

Strategy

AltaGas' track record of successful strategy execution has made it a leading Canadian integrated energy trust. The Trust's strategy is to deliver sustainable and increasing earnings and cash flow through the growth and diversification of its businesses, which capitalize on the integrated energy value chain.

By positioning the Trust strategically along the energy value chain, AltaGas links energy producers to energy users. AltaGas has expanded its business since inception to serve the growing demand for natural gas and power and has developed a portfolio of assets in business and geographic areas in which it has competitive advantages and expertise.

The objective of the Trust is to grow and operate its businesses in a manner that builds long-term value and delivers stable results. In order to achieve its objective the Trust will:

- Grow its energy asset base by seeking opportunities for development, expansion and acquisition in the natural gas, NGL and power businesses in Canada and the northern United States;
- Maintain existing assets and any acquired assets in a manner that provides predictable cash flow;
- Focus on energy assets that are diversified in terms of their revenue source, contractual terms, exposure to industry cycles and geographic location;
- Build on the current mix of assets which provides a combination of cost-of-service, fixed-fee, and margin-based revenue; revenue streams that are relatively predictable, with minimal or managed exposure to commodity prices; and a long-term cash flow horizon; and
- Continue to evaluate opportunities and expand its businesses along the energy value chain in a manner that is accretive to unitholders and that ensures concentrations of risk are minimized and long-term stable cash flows are provided.

AltaGas pursues opportunities along the energy value chain that offer strong financial returns and growth potential. AltaGas' management believes that North America's natural gas producing regions will continue to require significant investment in drilling and field development to support the levels of production seen in 2005 and that natural gas prices will remain high over the next decade as consuming markets continue to compete for supply. North American power demand has also grown steadily for many decades and management expects power demand to continue to grow in the future. Management has a fundamental view that power prices, over the long term, will support the construction of new generation to meet new demand and replace retired assets.

In 2005 AltaGas increased the number of reporting segments from three to six – Field Gathering and Processing (FG&P), Extraction and Transmission (E&T), Power Generation, Energy Services, Natural Gas Distribution and Corporate. The FG&P segment includes natural gas gathering and processing facilities. The E&T segment includes ethane and NGL extraction plant interests and transmission pipelines. Power Generation includes power purchase arrangements (PPAs) and gas-fired peaking plants. Energy Services includes energy management services, gas services and a small portfolio of oil and gas

production. The NGD segment included AltaGas' wholly owned subsidiary AltaGas Utilities, the Trust's one-third interest in Inuvik Gas and a 24.9 percent interest in Heritage Gas until November 17, 2005, when it was spun-out.

Highlights and Summary of Results

During 2005, AltaGas:

- Generated net income of $90.3 million, compared to $65.8 million for 2004 and $38.3 million for 2003;
- Generated funds from operations of $128.2 million, compared to $108.6 million for 2004 and $90.2 million for 2003;
- Recorded an after-tax gain of $7.9 million related to its investment in Taylor NGL Limited Partnership (Taylor);
- Completed the issuance of $100.0 million of senior unsecured medium-term notes (MTNs) on August 30, which carry a coupon rate of 4.41 percent. The proceeds of the issuance were used to repay bank debt;
- Repaid $100.0 million of MTNs issued in October 2000;
- Completed the spin-out of its NGD business into a separate, publicly traded company, Utility Group, on November 17. The spin-out resulted in a share distribution of Utility Group valued at an additional $0.54 for each trust unit, enhancing total unitholder return for the year;
- Acquired the 24 Mmcf/d Blair Creek sweet gas processing facility, expanded Marten Creek and Windfall and constructed the Shaunavon facility, adding a total of 49 Mmcf/d of processing capacity;
- Reduced debt by $90.5 million, resulting in a debt-to-total capitalization at December 31 of 36.0 percent, compared to 42.6 percent at the end of 2004; and
- Completed the acquisition of substantially all of the assets and liabilities of iQ2 Power Corp. (iQ2) on November 3.

CONSOLIDATED RESULTS

Consolidated Financial Results

($ millions)	2005	2004	2003(1)
Revenue	**1,502.3**	864.6	710.6
Net revenue(2)	**296.9**	250.4	217.3
EBITDA(2)	**155.5**	133.4	121.9
Net income	**90.3**	65.8	38.3
Total assets	**1,068.3**	1,108.6	919.3
Total long-term liabilities	**334.7**	323.7	468.9
Net additions to capital assets	**(139.4)**	101.6	52.6
Cash flows			
Funds generated from operations(2)	**128.2**	108.6	90.2
Distributable cash(2)(3)	**120.2**	102.2	79.6
Distributions/dividends paid(4)	**99.2**	58.7	17.3

($ per unit, basic)			
EBITDA(2)	**2.88**	2.70	2.68
Net income	**1.67**	1.33	0.84
Cash flows			
Funds generated from operations(2)	**2.37**	2.20	1.98
Distributable cash(2)(3)	**2.23**	2.07	1.75
Distributions/dividends paid(4)	**1.84**	1.31	0.38
Units outstanding (millions)			
Weighted average number of units outstanding for the period (basic)	**54.0**	49.4	45.5
End of period	**54.6**	53.2	45.7

(1) This period has been restated for the impacts of the adoption of CICA Handbook requirement for accounting for asset retirement obligations.

(2) Non-GAAP financial measure. See discussion in the following section of the MD&A.

(3) Based on cash from operations and is not impacted by investing and financing activities, therefore does not include proceeds of $12.8 million from sale of units of Taylor or net proceeds of $10.7 million from the sale of shares of Utility Group in 2005.

(4) Distributions paid of $0.16 per unit per month commencing in September 2005. From June 2004 to August 2005 distributions of $0.15 per unit per month were paid. In the first quarter of 2004 dividends of $0.11 per share were paid. In addition to cash distributions, unitholders of record on November 14, 2005 received one share of AltaGas Utility Group Inc. (valued at $7.50 per share) for every 13.9592 trust units held, providing additional value of $29.3 million, or $0.54 per unit.

2005 CONSOLIDATED FINANCIAL REVIEW

This section provides an overview of AltaGas' financial performance based on the audited annual Consolidated Financial Statements included in the 2005 Annual Report. All references to per unit amounts pertain to basic units outstanding for the period. Certain prior-year figures have been reclassified to conform to the current year's presentation.

Net income for the year ended December 31, 2005 was $90.3 million ($1.67 per unit), compared to $65.8 million ($1.33 per unit) for the year ended December 31, 2004. Net income increased by 37 percent due to full-year operations of 2004 acquisitions, higher power prices received, gains on the disposition of investments, lower interest expense as a result of lower average debt balances and lower interest rates, and lower income taxes. The increases to net income were partially offset by higher operating and administrative and amortization costs, higher power transmission and generation costs and the spin-out of the NGD business.

Net income for the year ended December 31, 2005 included an after-tax gain of $7.9 million on the disposition of 1.4 million units of Taylor and a related dilution gain.

Funds generated from operations for 2005 were $128.2 million, compared to $108.6 million in 2004. The increase was primarily due to higher net income and distributions from equity investments.

On a consolidated basis, net revenue for the year ended December 31, 2005 was $296.9 million, an increase of 19 percent from $250.4 million in 2004. The increase was due to the full-year impact of the third quarter 2004 acquisition of the Edmonton Ethane Extraction Plant (EEEP, $10 million), the full-year impact of the fourth quarter 2004 acquisition of PremStar ($11 million), higher average prices received on power sales ($10 million), and gains from the disposition of Taylor units ($9.2 million). In the FG&P segment, expansions and acquisitions, higher processing fees and higher operating cost recoveries increased net revenue by approximately $8 million. These increases were slightly offset by the spin-out of the NGD segment on November 17, 2005 ($2 million), and the reduction of equity income related to the reduction in ownership interest in the Taylor investment.

In the extraction component, Power Generation, Energy Services and NGD segments, net revenue better reflects performance than does revenue, as changes in the market price of natural gas and power affect both revenue and cost of goods sold.

Operating and administrative expenses for 2005 were $141.4 million, compared to $117.0 million in 2004. The net increase in operating and administrative expenses of $24.4 million was due to growth in operations, higher operating costs which are recovered from customers, increased power transmission and generation costs, higher repair and maintenance costs, higher general corporate expenses to support the growth of the Trust and costs incurred to meet new certification requirements for reporting issuers mandated by the Canadian Securities Administrators. The increases were offset by lower costs resulting from the spin-out of the NGD segment.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were $155.5 million in 2005, an increase of 17 percent, compared to $133.4 million in 2004.

Amortization expense for 2005 increased to $47.4 million from $41.8 million in 2004. The higher expense was mainly due to increases in capital assets resulting from acquisitions and internal expansion projects, and higher depletion expense related to the Trust's oil and gas properties.

Interest expense for 2005 was $19.1 million, a decrease of $2.1 million from $21.2 million in 2004. The decrease was due to lower average debt balances (2005 average debt balance – $326.1 million, 2004 average debt balance – $359.6 million) resulting from the Trust's equity issue in June 2004, proceeds related to the November 17, 2005 spin-out of the NGD segment used to repay $85.4 million of debt, and to higher funds generated from operations in 2005, partially offset by interest on a capital lease acquired in the third quarter of 2004. Also contributing to the lower interest expense were lower average borrowing rates on existing credit facilities due to a higher proportion of outstanding debt being underpinned by interest rate swaps, and reduced interest costs associated with the issuance of the new MTNs in August 2005.

As a result of AltaGas' conversion to an income trust, and consequently intercompany interest expense reducing taxable income, amortization expense now exceeds capital cost allowance claimed, resulting in a reversal over time of the Trust's future income tax liability.

In 2005 the Trust recorded an income tax recovery of $1.3 million compared to an income tax expense of $4.6 million in 2004. The decrease in income tax expense reflected AltaGas as an income trust for a full year compared to eight months in 2004. In addition, the 2005 income tax expense was impacted by a true-up of future tax balances as well as an additional tax expense in respect of the spin-out of the NGD business. Current income tax expense was recorded as a result of the NGD segment, which operated as regulated businesses under utility board regulation until its spin-out in November 2005, as well as Large Corporations Tax for all the Trust's subsidiaries.

NON-GAAP FINANCIAL MEASURES

AltaGas provides certain financial measures in this MD&A that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP). These non-GAAP financial measures may not be comparable to similar measures presented by other entities.

The purpose of these financial measures and their reconciliation to GAAP financial measures is shown below. All of the measures have been calculated consistent with previous disclosures by AltaGas.

Net Revenue

($ millions)	**2005**	2004	2003
Net revenue	**296.9**	250.4	217.3
Add: cost of sales	**1,205.4**	614.2	493.3
Revenue (GAAP financial measure)	**1,502.3**	864.6	710.6

In the Power Generation, Energy Services and NGD segments and the extraction business, net revenue is a better measure of business performance than revenue as changes in the market price of power, natural gas and NGLs purchased for resale affect both revenue and the cost of sales. Net revenue also better reflects growth in the business.

Operating Income

($ millions)	**2005**	2004	2003
Operating income	**108.1**	91.6	83.6
Add (deduct): interest	**(19.1)**	(21.2)	(22.1)
income taxes	**1.3**	(4.6)	(23.2)
Net income (GAAP financial measure)	**90.3**	65.8	38.3

AltaGas reports segmented operating income in the Notes to the Consolidated Financial Statements. Corporate operating and administrative expenses were not allocated to business segments beginning in 2005.

EBITDA

($ millions)	2005	2004	2003
EBITDA	**155.5**	133.4	121.9
Add (deduct): amortization	**(47.4)**	(41.8)	(38.3)
interest	**(19.1)**	(21.2)	(22.1)
income taxes	**1.3**	(4.6)	(23.2)
Net income (GAAP financial measure)	**90.3**	65.8	38.3

EBITDA is provided to assist in understanding the Trust's ability to generate cash and cover interest payments.

Funds Generated from Operations

($ millions)	2005	2004	2003
Funds generated from operations	**128.2**	108.6	90.2
Add (deduct): net change in non-cash working capital and other	**(15.9)**	39.1	6.3
Cash from operations (GAAP financial measure)	**112.3**	147.7	96.5

Funds generated from operations is provided to assist in determining the Trust's ability to generate cash from operations, after interest and taxes, without regard to changes in the Trust's non-cash working capital in the period.

Distributable Cash

($ millions)	2005	2004	2003
Distributable cash	**120.2**	102.2	79.6
Add (deduct): maintenance capital expenditures	**8.0**	6.4	10.6
net change in non-cash working capital and other	**(15.9)**	39.1	6.3
Cash from operations (GAAP financial measure)	**112.3**	147.7	96.5
Distributable cash flow per unit	**2.23**	2.07	1.75

The Trust's distributable cash flow is equal to consolidated funds generated from operations before changes in non-cash working capital, after providing for maintenance capital expenditures. Distributable cash flow is not a defined performance measure under GAAP and distributable cash cannot be assured. The Trust's calculation of distributable cash flow may differ from similar calculations used by comparable entities. Distributable cash flow is a main performance measure by management and investors to evaluate performance of the Trust and its operating subsidiaries.

In the first quarter of 2005, AltaGas sold 1.4 million units of Taylor for gross proceeds of $12.8 million. In the fourth quarter of 2005, the Trust sold 1.7 million common shares of Utility Group for net proceeds of $10.7 million. As the Trust's distributable cash is based on cash from operations net of the change in non-cash working capital and other and maintenance capital expenditures, it is not impacted by changes to cash resulting from investing or financing activities and hence does not include the proceeds from the sale of Taylor units or Utility Group common shares.

RESULTS OF OPERATIONS BY SEGMENT

In 2005, AltaGas reassessed its operating businesses, and consequently is reporting consolidated financial and operating results for 2005 on the basis of six segments: FG&P, E&T, Power Generation, Energy Services, NGD and Corporate. The FG&P segment includes natural gas gathering and processing facilities. The E&T segment includes ethane and NGL extraction plant interests and transmission pipelines. Power Generation includes power purchase arrangements and gas-fired peaking plants. Energy Services includes energy management services, gas services and a small portfolio of oil and gas production. The NGD segment includes AltaGas' wholly owned subsidiary, AltaGas Utilities, the Trust's one-third interest in Inuvik Gas and a 24.9 percent interest in Heritage Gas. On November 17, 2005 the Trust spun out the NGD segment into a separate, publicly traded corporation, Utility Group, of which the Trust maintains a 26.7 percent interest.

AltaGas will report the results of its interest in Utility Group in the new Corporate segment along with its investment in Taylor, and corporate operating and administrative costs. For comparative purposes and because 2004 and 2003 segmented information has not been restated to conform with the presentation of the new segments for the year ended

December 31, 2005, the following analysis shows the operations by segment for 2004 and 2003 based on the three operating segments reported in those years.

Operating Income

($ millions)	2005	2004	2003(1)
Gathering and Processing	–	45.4	42.3
Field Gathering and Processing (2)	24.1	–	–
Extraction and Transmission (2)	30.4	–	–
Power Generation (3)	48.7	–	–
Energy Services	5.6	38.3	32.6
Natural Gas Distribution	6.2	7.9	8.7
Corporate	(6.9)	–	–
	108.1	91.6	83.6

(1) Restated for the impact of asset retirement obligation accounting.
(2) Included in the Gathering and Processing segment in 2004 and 2003.
(3) Included in the Energy Services segment in 2004 and 2003.

FIELD GATHERING AND PROCESSING AND EXTRACTION AND TRANSMISSION

The FG&P and E&T segments' 2004 and 2003 results have been combined in each of the years for the purposes of discussion and analysis, as it is not practical to separate costs allocated to the Gathering and Processing segment in 2004 and 2003. In 2005, some of these costs are reported in the Corporate segment, whereas in the comparative periods they are included in the operating segments.

Financial Results

($ millions)	2005	2004	2003(1)
Revenue			
Gathering and Processing	–	222.6	174.1
Field Gathering and Processing	131.8	–	–
Extraction and Transmission	181.3	–	–
	313.1	222.6	174.1
Net revenue			
Gathering and Processing	–	160.1	137.8
Field Gathering and Processing	120.1	–	–
Extraction and Transmission	58.0	–	–
	178.1	160.1	137.8
Operating and administrative expense			
Gathering and Processing	–	88.5	71.9
Field Gathering and Processing	75.3	–	–
Extraction and Transmission	20.1	–	–
	95.4	88.5	71.9
Amortization expense			
Gathering and Processing	–	26.2	23.6
Field Gathering and Processing	20.7	–	–
Extraction and Transmission	7.5	–	–
	28.2	26.2	23.6
Operating income			
Gathering and Processing	–	45.4	42.3
Field Gathering and Processing	24.1	–	–
Extraction and Transmission	30.4	–	–
	54.5	45.4	42.3

(1) Restated for the impact of asset retirement obligation accounting.

Operating Statistics	2005	2004	2003
Field Gathering and Processing			
Capacity (Mmcf/d) (1)	962	913	861
Throughput (gross Mmcf/d) (2)	573	558	523
Throughput (gross average annual Mmcf/d)	563	560	520
Capacity utilization (percent) (2)	60	61	61
Average working interest (percent) (1)	90	90	90
Extraction			
Inlet capacity (Mmcf/d) (1)	539	539	349
Production (Bbls/d) (3)	19,357	13,436	7,575
Transmission volumes (Mmcf/d) (2)(4)	432	432	403

(1) As at December 31.
(2) Fourth quarter average.
(3) Average for the period.
(4) Excludes condensate pipeline volumes.

Business Activities

The FG&P segment included more than 6,000 kilometres of associated raw natural gas gathering lines, which moved natural gas from producing wells to AltaGas' 71 natural gas field gathering and processing facilities in 2005.

The E&T segment includes interests in four ethane and NGL extraction plants, one field fractionation facility and six transmission pipelines.

The Trust's field gathering and processing facilities remove impurities and certain hydrocarbon components from natural gas and compress the gas to meet the operating specifications of downstream pipeline systems that deliver gas to domestic and export energy markets. At the end of 2005, AltaGas had total processing capacity of 962 Mmcf/d, including 242 Mmcf/d of sour gas capacity, and operated 68 of its 71 processing facilities.

The vast majority of AltaGas' gathering and processing contracts with natural gas producers are volumetric fee-for-service, based on a rate per mcf of throughput. Volumetric fee structures may include provisions for recovery of actual operating costs, which mitigates the financial risk related to volume variability and operating costs. Approximately 76 percent of contracts in place at December 31, 2005 were subject to annual price escalation clauses related to changes in the Alberta Consumer Price Index. This "toll-for-service" structure avoids exposure to commodity price risk, as revenues are a function of volumes processed. AltaGas' investment is generally protected by the life of reserves behind the facility, since producing wells typically remain connected to a gathering and processing system for their entire productive lives.

AltaGas owns extraction plant capacity through its working interests in four ethane and NGL extraction plants and one wholly owned field fractionation facility. These extraction assets provide stable fixed-fee or cost-of-service type revenues, as well as margin-based revenues. The key driver of performance in extraction is ethane and NGL production volumes. In 2005 ethane volumes represented approximately 68 percent of AltaGas' net extraction production and the remaining 32 percent was NGL production.

AltaGas' net share of ethane production is sold through long-term cost-of-service or fixed-fee arrangements that bear no commodity price risk. The sales price received under these contracts provides for a return on and of capital and the recovery of certain operating costs, including shrinkage make-up gas attributable to that production. AltaGas' share of ethane production is sold at the outlet of the plants, with the product purchaser responsible for all downstream transportation and handling.

AltaGas' net NGL production is sold under a variety of arrangements. Approximately 78 percent of net NGL production is sold under long-term, fixed-fee arrangements. These volumes do not bear commodity price risk. The revenue from this portion of NGL sales and AltaGas' ethane sales provide a stable, predictable cash flow base.

On the portion of the extraction production that is not sold under fixed-fee sales, cost-of-service contracts, or operating cost recoveries, performance is subject to the price spread between NGLs extracted and the natural gas purchased to make up the heating value of the NGLs extracted (known in the industry as "frac spread").

Approximately 17 percent of AltaGas' net NGL production, or 5 percent of total extraction production, is sold under short-term contracts subject to frac spread. The remaining 5 percent of net NGL production is sold under a profit-and-loss arrangement. If commodity prices or operating costs make NGL extraction uneconomical, the NGLs may be reinjected or the facilities may be turned down or shut-in. When this occurs, the operational flexibility of the commercial contracts translates into a minimal effect on margins.

AltaGas owns six transmission pipelines and provides transportation mainly through cost-of-service type fee structures and take-or-pay arrangements. Transmission volumes are not a key driver of performance as the cost-of-service structures have a rate of return associated with a rate base and transport-or-pay arrangements have guaranteed revenues regardless of volumes transported.

The largest contributor to transmission revenues is the Suffield system, which consists of two natural gas pipelines at Suffield, Alberta, with combined capacity of 400 Mmcf/d. The majority of the Suffield system capacity is contracted through transport-or-pay and volume commitments that will expire in 2022 and are renewable for one-year periods thereafter. Volume commitments on the system will increase annually from approximately 332 Mmcf/d in 2005 to approximately 385 Mmcf/d in 2010 and will decline thereafter.

Results of Operations

Operating income in the FG&P and E&T segments in 2005 was $54.5 million compared to $45.4 million in 2004. In Field Gathering and Processing, strong financial performance was due to higher throughput associated with the mid-year expansions at the Marten Creek and Windfall facilities and the Blair Creek acquisition in the fourth quarter of 2005. This was partially offset by increases in operating costs and amortization expense due to the acquisitions and expansions, as well as to increased power and repair and maintenance costs. The E&T segment reflects the full year of EEEP operations, which was acquired in August 2004, and increased throughput on the Suffield pipeline. These increases were partially offset by frac spreads that were on average lower by approximately $1/Bbl in 2005 compared to 2004, and two years of National Energy Board (NEB) transmission charges billed in 2005. Contributing to the positive variance are costs that were allocated to the operating segments in 2004 and are reported in the Corporate segment in 2005, somewhat offset by the Trust's equity earnings related to Taylor, which were reported in the Corporate segment in 2005.

FG&P and E&T revenue for the year ended December 31, 2005 was $313.1 compared to $222.6 million in 2004. Net revenue increased by 11 percent in 2005, to $178.1 million from $160.1 million in 2004.

Net revenue for the FG&P business increased to $120.1 million in 2005 from approximately $110.7 million in 2004 due to higher gathering and processing fees, higher commodity prices and higher operating cost recoveries. Expansions at Marten Creek and Windfall and the acquisition of Blair Creek in 2005 increased capacity from 913 Mmcf/d at the beginning of the year to 962 Mmcf/d at the end of December. The full-year effect of these activities is expected to contribute to increased net revenue in 2006.

Average ethane and NGL volumes extracted increased to 19,357 Bbls/d in 2005 from 13,436 Bbls/d in 2004, primarily as a result of the full year of operations at EEEP. The magnitude of the increase in volumes extracted was reduced by a three-week shutdown of the Empress EnCana extraction plant related to severe weather conditions that occurred in late June. In addition, all NGL production was reinjected at EEEP for approximately 10 days in December. Net revenue was not impacted by these events due to operational flexibility and the commercial arrangements in place.

Volumes were further reduced, due to the reinjection of NGLs at the Joffre Ethane Extraction Plant, for a total of 14 days in the fourth quarter as a result of unfavourable frac spreads.

In the transmission business, volumes remained high in both 2005 and 2004. AltaGas maintained volume throughput on the pipelines due to higher volume commitments on the Suffield system, which also benefited from increased interruptible transportation volumes during 2005.

Net revenue in the E&T segment increased to $58.0 million in 2005 from $47.3 million in 2004. This increase was due to the full-year contribution from the EEEP acquisition and higher operating cost recoveries, including power costs and transmission system repairs. This was partially offset by lower frac spreads in 2005 compared to 2004.

Operating and administrative costs in the FG&P and E&T segments for 2005 were $95.4 million, compared to $88.5 million in 2004. The increase was due to a full year of operations at EEEP, increased repair and maintenance and power costs at FG&P and extraction facilities, higher operating costs reflecting acquisitions and expansions, and two years of NEB transmission charges billed in 2005. Increased operating and administrative costs were offset by corporate costs that were allocated to the segments in 2004 and are now reported in the Corporate segment in 2005.

AltaGas performs scheduled turnarounds and maintenance projects at its field gathering and processing facilities to enhance and maintain operating efficiencies. The turnarounds are accounted for as operating expenses. AltaGas' processing facilities continued to experience overall operational availability in the 98 percent range in 2005, which resulted in net revenue being only marginally affected by shutdowns due to the maintenance activities.

Amortization expense increased to $28.2 million for 2005 from $26.2 million in 2004. The higher expense was due to the FG&P and E&T segments' increased capital assets as a result of expansion projects and acquisitions in the latter half of 2004.

Business Strategy

Opportunities in the FG&P segment result from the requirement for all impurities and various hydrocarbon components to be removed from natural gas in order to meet the specifications of downstream pipeline systems. As a result, FG&P facilities are a critical link in the natural gas supply chain, stretching from the wellhead to the burner-tip. AltaGas has grown its FG&P business based on an acquisition and development strategy unique in the Canadian midstream market.

AltaGas' FG&P strategy is to:

- Maintain flexibility by investing in moveable assets that can be easily redeployed, improving operational flexibility and profitability;
- Offer customers diverse marketing opportunities by focusing on assets that have access to one or more downstream natural gas transportation pipelines;
- Acquire and maintain large working interests in assets;
- Control operations and increase efficiency;
- Reduce overall corporate risk through geographical and customer diversity;
- Acquire underutilized assets that offer upside through increased throughput;
- Build new facilities in response to producer demand;
- Expand reach into B.C. and northern Alberta where there is strong producer activity and less existing infrastructure and where existing producer plants are fully utilized;
- Construct or acquire and connect complementary facilities to create large facility complexes; and
- Maintain strong operational excellence.

In the FG&P segment, facility utilization can often be increased with little or no additional capital investment. Facility utilization averaged 60 percent in the last quarter of 2005. With its extensive gathering systems and the mobile nature of the majority of its processing plants, AltaGas has a unique ability to quickly redeploy assets in response to producer drilling activity, and to size facilities to meet demand while reducing operating costs and minimizing the time required to bring new production on-stream, thereby improving producer and AltaGas cash flows.

Existing FG&P areas are generally surrounded by adjoining or overlapping gathering and processing systems. As AltaGas has grown, opportunities to expand by tying in new wells and building or purchasing adjoining facilities and systems have increased. New area development comes in large part from AltaGas' existing and expanding producer customer base and their drilling programs. At present, the majority of gathering and processing infrastructure in western Canada is still owned by oil and natural gas producers. AltaGas believes that its strong operational skills and extensive market penetration create opportunities to work with exploration and production companies to provide field gathering and processing services, enabling producers to focus their resources on exploration and production activities.

AltaGas maintains a conservative risk profile in part by focusing on acquisitions that represent real value for unitholders and refraining from transactions that it believes are overpriced and unlikely to be accretive to net income. Over the past few years, the industry has experienced acquisition activity with high earnings multiples for FG&P assets, resulting in AltaGas' strategy to focus primarily on building new facilities and expanding existing infrastructure, rather than on acquisitions. AltaGas has been able to capitalize on the close relationships built on past performance with producers in the Western Canada Sedimentary Basin (WCSB) in executing its strategy.

AltaGas continued to enhance its already strong safety and environmental management systems as reflected by improved external audit scores in 2005. Operator training continued to be a focus in 2005, positioning AltaGas' operations as one of the safest and its employees among the best trained in the industry.

AltaGas recognizes its environmental responsibility and works diligently to minimize its impact on the environment and communities in which it operates. In 2005 the Shaunavon gas plant in Saskatchewan began processing gas that had previously been flared. At sour gas processing facilities such as Princess, future projects may include acid gas injection, which reduces carbon dioxide and sulphur dioxide emissions to virtually zero.

In the extraction business, opportunities arise through modifications to increase product recoveries at plants in which AltaGas already has ownership interests; acquiring increased interests in existing extraction plants; or the construction of new facilities. Extraction plant opportunities typically reflect a lower-risk, long-term, cost-of-service ethane processing arrangement contracted with Alberta ethylene producers; lower-risk, long-term NGL fixed-processing-fee arrangements; or short-term sales of NGLs based on an Edmonton or U.S. index.

Transmission pipeline opportunities arise through the levering of existing facilities by capturing additional market share through the construction or acquisition of transmission pipelines, often combined with AltaGas' gathering and processing, natural gas marketing and transportation services. In previously unserved areas, AltaGas works with customers to create transmission solutions. In capturing opportunities, AltaGas focuses on cost-of-service type transportation arrangements.

Business Risks

OPERATIONAL

The ongoing capacity utilization of AltaGas' systems is dependent on a number of factors including:

- The level of exploration and development within the WCSB;
- The longer-term price of natural gas;
- The ability of natural gas producers to produce and deliver natural gas to the various pipeline systems; and
- The regulatory environment for producers, transporters and consumers of natural gas.

Throughput at AltaGas' FG&P facilities is influenced by production of natural gas in AltaGas' service areas. AltaGas actively pursues opportunities to maintain or increase throughput and has been successful in offsetting production declines. AltaGas' contract provisions further mitigate the impact of volume declines, generate additional volumes at its facilities, encourage expansion into areas where AltaGas' facilities are located and allow AltaGas to recover its invested capital over a relatively short period of time. The majority of AltaGas' field processing facilities are skid-mounted and can be moved to areas with favourable production potential should a particular area's production decline significantly.

AltaGas' extraction business depends somewhat on the level of demand for and the pricing of NGLs. AltaGas cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, governmental regulation or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for natural gas and NGLs. Because NGLs are a feedstock to the petrochemical industry, there is a historical relationship between NGL prices and crude oil prices. As crude oil prices fall, NGL prices will generally decrease, subject to other factors that influence supply and demand, including the cost of natural gas.

REGULATION

AltaGas' FG&P business is subject to regulation in the jurisdictions in which it carries on business. Pipelines and facilities can be subject to common carrier and common processor applications and to rate setting by the regulatory authorities in the event an agreement on fees or tariffs cannot be reached with producers. To the extent that producers believe processing fees or tariffs respecting pipelines and facilities are too high, they may seek relief through intervention by regulators. AltaGas' operated facilities have not been subject to any regulator intervention.

OUTLOOK

AltaGas anticipates continued high levels of drilling activity in the WCSB, which is expected to result in increased throughput volume and expansion opportunities in existing and new operating areas.

The Blair Creek gas plant, which began operations on October 30, 2005, the new Clear Prairie and Princess gas plants, and additional internal growth in 2006 are expected to add to the FG&P segment's throughput and operating margin in 2006.

AltaGas also plans to install an acid gas injection system at Princess in the Bantry operating area in 2006, resulting in zero sulphur dioxide emissions, which is expected to encourage producers to increase drilling and production in the area.

In 2006, AltaGas expects to spend more than $40 million of capital on the construction of new and expansion of existing FG&P facilities.

The E&T segment is expected to continue to deliver strong performance and predictable and stable returns in 2006 due to existing contractual arrangements in place.

POWER GENERATION AND ENERGY SERVICES

The Power Generation and Energy Services segments' 2004 and 2003 results have been combined in each of those years for the purposes of discussion and analysis, as it is not practical to separate costs allocated to the Energy Services segment in 2004 and 2003. In 2005, some of these costs are reported in the Corporate segment, whereas in the comparative periods they are included in the operating segments. Commencing in 2005, the Power Generation segment comprises power purchase arrangements and gas-fired peaking plants. The Energy Services segment includes the energy management, gas services and oil and gas production businesses. AltaGas is not in the business of exploration and development of natural gas reserves; however, associated with certain of its facility acquisitions, AltaGas has accumulated a portfolio of oil and natural gas reserves that it continues to hold and produce.

Financial Results

($ millions)	**2005**	2004	2003(1)
Revenue			
Power Generation	**189.2**	–	–
Energy Services	**1,080.2**	629.5	509.6
	1,269.4	629.5	509.6
Net revenue			
Power Generation	**57.8**	–	–
Energy Services	**23.5**	59.9	49.3
	81.3	59.9	49.3
Operating and administrative expense			
Power Generation	**1.8**	–	–
Energy Services	**14.8**	12.4	8.2
	16.6	12.4	8.2
Amortization expense			
Power Generation	**7.3**	–	–
Energy Services	**3.1**	9.2	8.5
	10.4	9.2	8.5
Operating income			
Power Generation	**48.7**	–	–
Energy Services	**5.6**	38.3	32.6
	54.3	38.3	32.6

(1) Restated for certain NGL operations previously reported in Energy Services, and now managed and reported in Extraction and Transmission.

Operating Statistics	**2005**	2004	2003
Power Generation			
Volume of power sold (thousands of MWh)	**3,466**	3,481	3,266
Average price received on the sale of power ($/MWh)	**54.59**	48.77	47.56
Alberta Power Pool average spot price ($/MWh)	**70.19**	54.54	62.98
Energy Services			
Energy management service contracts(1)	**1,243**	427	–
Average gas volumes marketed (GJ/d)	**312,272**	174,337	–

(1) Active energy management service contracts at the end of the reporting period.

Business Activities

The Power Generation segment is primarily engaged in the sale of electricity and ancillary services to the Alberta wholesale market. The segment includes coal generation capacity through long-term PPAs and gas-fired peaking power facilities through a long-term lease.

The main drivers of performance in this segment are the amount of energy hedged using financial derivative contracts, the price received for the hedged volumes and the price received on power sales at spot market prices.

AltaGas' power portfolio at the end of 2005 consisted of 478 MW of power generation capacity serving approximately 6 percent of Alberta's power demand. The Sundance B PPAs provide 353 MW of power generation capacity from two plants in Alberta until December 31, 2020. The three-year Genesee energy contract, entered into on April 1, 2003, provides a further 100 MW from two other plants. On September 1, 2004 AltaGas entered into a 10-year capital lease for 25 MW of capacity generated by gas-fired peaking plants on four sites located in southern Alberta. The capital lease requires AltaGas to pay monthly variable operating and maintenance charges plus a capacity fee. AltaGas retains all of the ancillary service and merchant peaking sales revenues. The peaking gas supply requirement is managed by AltaGas' Energy Services segment.

The Energy Services segment includes energy management services, gas services and the production of oil and natural gas. The energy management business provides energy consulting and supply management services and arranges natural gas and power supply for non-residential end-users. The gas services business consists of buying and reselling natural gas, transportation and storage on a fixed-margin or fee-for-service basis. The portfolio of Energy Services assets is primarily composed of energy services arrangements and contracts and customer relationships. Also included is a small portfolio of oil and natural gas reserves acquired over time in association with various asset acquisitions that have been retained as underpinning to certain gas services contracts.

On November 3, 2005 AltaGas completed the acquisition of substantially all of the assets and liabilities of iQ2 Power Corp. iQ2 purchases power and natural gas for resale in the retail market in Alberta. At the time of the acquisition iQ2 served over 700 medium-sized agricultural, industrial and commercial clients with a total demand of approximately of 60 MW.

Results of Operations

Operating income for the combined Power Generation and Energy Services segments was $54.3 million in 2005, compared to $38.3 million in 2004. The increase was primarily due to higher power prices received, the full-year impact of the October 2004 PremStar acquisition and the 2004 addition of the gas-fired peaking plants. These increases were partially offset by higher transmission and generation costs, as well as increased operating, administrative and amortization costs. Further contributing to the increases were costs allocated to the operating segment in the previous year and reported in the Corporate segment in 2005.

Net revenue for the Power Generation segment increased by 21 percent to $57.8 million in 2005. The increase was due to higher average prices received on the sale of power compared to 2004, and reflected the impact of entering into forward financial sales contracts at higher contracted prices than in 2004, as well as the effect of higher prices on spot market sales and the full-year impact from the gas-fired peaking facilities. Higher net revenue was partially offset by higher transmission and generation costs.

Net revenue for the Energy Services segment was $23.5 million in 2005 compared to $12.1 million in 2004. This increase was mainly due to a full year of PremStar operations, growth in the energy management business and the acquisition of iQ2.

Operating and administrative expenses for the Power Generation and Energy Services segments increased to $16.6 million in 2005 from $12.4 million in 2004. These increases were due to the PremStar and iQ2 acquisitions. In 2004, the operating segments incurred shared costs and allocations that are reported in the Corporate segment for 2005.

Amortization expense increased to $10.4 million in 2005 from $9.2 million in 2004. This increase was attributable to a full year's amortization related to the capitalized costs of the peaking plants' lease that commenced September 1, 2004, as well as the amortization of contracts and customer relationships resulting from the PremStar and iQ2 acquisitions.

Business Strategy

The Sundance B PPAs provide AltaGas with a profitable, low-cost, coal-based generation position in the Alberta power market where power pricing tends to be based on the natural gas fuel cost of plants that serve peak loads. This means that as natural gas prices rise and drive power prices higher, AltaGas' coal-fired generation benefits from higher prices. Since 2001, AltaGas has diversified its power portfolio. In 2003 the Genesee energy contract began providing AltaGas with additional diversity of power supply from two additional units, and the Alberta gas-fired peaking plants leased in 2004 provide operational backstopping to the PPAs. The peaking plants also allow the Trust to benefit from attractive peak-load power pricing and to sell ancillary services.

AltaGas' strategy is to continue to invest in power opportunities and to optimize its existing power investments. The Trust intends to pursue acquisition and development of power generation projects that are supported by long-term power sales arrangements. AltaGas will pursue additional PPAs as well as gas-fired and renewable power assets to augment its existing capacity. Underlying these goals is the strategy to increase geographic and fuel source diversification and to further develop operational capabilities.

The business strategy for AltaGas' energy management services business is focused on commercial, industrial, agricultural and institutional end-use customers. Energy management services are offered primarily through ECNG, iQ2 Power and PremStar Pacific. Through these brand names, AltaGas has a significant regional presence, mainly in Ontario, Alberta and B.C. In each of these markets the AltaGas brands are characterized by strong billing systems and responsive customer service. Customer demand for energy management services is driven by customers' needs for independent advice to understand and manage their energy costs. The current environment of high and volatile energy prices provides significant growth opportunities.

The strategy in gas services is to lever AltaGas' expertise in gas markets and innovative contracting arrangements to create value and lock in margins. Synergies with AltaGas' FG&P and Extraction businesses provide opportunities to market gas for producers, while the energy management services business provides opportunities to sell natural gas and electricity and to bring more volumes through AltaGas' extraction plants, adding value along the energy value chain, thereby improving margins.

Business Risks

COMMODITY PRICE RISK

AltaGas' revenue from power sales is subject to factors such as fluctuating supply and demand, which may be affected by weather, customer usage, economic activity and growth. Each of these may have an impact on the prices the Trust receives for the power sold, which in turn can create volatility in earnings. AltaGas reduces its exposure to floating electricity prices by entering into forward sales contracts to lock in power prices. Forward power sales contracts are for various terms and market prices. During 2006, contracts are in place for periods ranging from three months to 12 months.

The Trust uses disciplined hedging strategies to actively manage its power capacity in order to provide stable, relatively predictable earnings and cash flow. AltaGas does not engage in the speculative trading of power. The average price AltaGas received from power sales in 2005 was $54.59 per MWh, compared to $48.77 per MWh in 2004. Average Alberta Power Pool spot prices were $70.19 per MWh and $54.54 per MWh for 2005 and 2004, respectively.

AltaGas does not take on commodity price risk in connection with its gas services activities. In some cases AltaGas takes title to gas supplies it buys and resells to its energy management customers. Any such supply arrangements are made on a back-to-back basis so that AltaGas is not exposed to commodity price risks. AltaGas has implemented rigorous risk management processes and systems to carefully monitor and manage its gas services business. Included in these are policies and procedures to manage counterparty risk.

OPERATIONAL RISK

AltaGas' main source of power supply is from its 353-MW share of the Sundance B PPAs. This capacity is held through the ASTC Power Partnership (ASTC), in which each of AltaGas and TransCanada Energy Ltd. own a 50 percent interest. ASTC holds the rights to power capacity from Units 3 and 4 of the Sundance power plant owned by TransAlta Corporation. The combination of power capacity from the two plants reduces the risk of supply interruption due to

operating failure from a single plant. In addition, the terms of the PPAs require TransAlta to compensate ASTC if actual generation falls below the stated target availability level. The rate of compensation is based on the rolling 30-day average pool price (RAPP). Similarly, if generation is above target, ASTC is obligated to compensate TransAlta based on RAPP.

AltaGas uses a price hedging strategy in its power business that is designed to balance price stability with operating risk. As a result AltaGas does not lock in sales prices on the full amount of expected available capacity. AltaGas' peaking generation is dispatched to meet peak power demand when market prices are economic or when power is required to offset operating risk at AltaGas' PPA plants.

AltaGas' energy management services business is a fee-for-service business comprising one to three-year evergreen contracts. AltaGas experienced renewal rates of over 95 percent in 2005 and expects high renewal rates to continue.

OUTLOOK

AltaGas expects power prices in Alberta to remain strong over the short term as significant new capacity is not expected to be added over the next two years, and natural gas-fired generation is expected to continue to set marginal power prices. With continued economic and population growth predicted in Alberta, electricity consumption is expected to continue rising, placing upward pressure on prices.

Although the Genesee power strip contract for 100 MW of capacity expires at the end of March 2006, the Power Generation segment's operating income is expected to increase in 2006. AltaGas has hedged the sales price on a significant portion of its 2006 capacity at prices above the average price realized in 2005. In addition, a change in transmission tariffs resulting from government regulation is expected to reduce transmission costs beginning January 1, 2006. The overall impact to power prices resulting from the change in the transmission tariffs is not determinable.

AltaGas' acquisition strategy includes achieving greater geographic and fuel diversity, as well as developing operational capability of power assets. AltaGas intends to expand its Power Generation segment across Canada and the northern United States by acquiring, building and operating power assets. In January 2006 the Trust announced it had entered into an agreement with a wind power developer to form a limited partnership for the purpose of pursuing the development of a wind power project at Bear Mountain in northeast B.C.

AltaGas is well-positioned to be a major national energy management services provider, levering its expertise in natural gas and electricity, and serving customers at the regional and national levels. Its back office systems allow it to provide industry-leading balancing and billing services to its customers. AltaGas expects to grow through the addition of new customers and the extension of service offerings.

AltaGas' gas services business levers synergies with other parts of the business to provide low-risk margins without significant investment in capital assets. The Trust expects to continue to grow this part of the business in 2006.

NATURAL GAS DISTRIBUTION

The NGD segment includes AltaGas Utilities, AltaGas' one-third interest in Inuvik Gas and its 24.9 percent interest in Heritage Gas. On November 17, 2005 the Trust spun out its NGD business into a separate, publicly traded company. The operating results of the Natural Gas Distribution segment are reported in the NGD segment until November 16, 2005. The Trust's share of earnings of Utility Group for the period November 17, 2005 to December 31, 2005 has been reported in the Corporate segment using the equity method of accounting.

Financial Results

($ millions)	**2005(1)**	2004	2003
Revenue	**113.4**	124.6	129.4
Net revenue	**29.0**	30.7	30.6
Operating and administrative expense	**16.0**	16.4	15.6
Amortization expense	**6.8**	6.4	6.3
Operating income	**6.2**	7.9	8.7

(1) For the period from January 1 to November 16.

Operating Statistics[1]	2005[3]	2004	2003
Volume of natural gas distributed			
Sales (Bcf)	**10.4**	13.6	13.8
Transportation (Bcf)	**8.7**	11.0	9.7
Degree day variance (percent)[2]	**(1.4)**	2.6	6.9
Number of customers	**61,447**	60,430	59,543

(1) AltaGas Utilities only.
(2) Variance from 20-year average. Positive variances are favourable.
(3) For the period January 1 to November 16.

Through a series of transactions, the Trust's ownership interest in Utility Group, the owner of the businesses that comprised the NGD segment, was reduced to 26.7 percent. Prior to these transactions the operations and financial results of the NGD segment were consolidated by the Trust. Subsequent to November 17, 2005, the Trust accounted for its ownership interest in Utility Group as an equity investment recognizing its share of net income or loss as equity income in the Corporate segment.

Results of Operations

Operating income for the segment was $6.2 million for the period January 1 to November 16, 2005, compared to $7.9 million in 2004. The decrease in operating income was due to the spin-out of the segment effective November 17, 2005, as well as warmer weather in 2005 compared to 2004. Historically the fourth quarter represented one of the strongest quarter for the NGD segment.

NGD segment revenue decreased to $113.4 million in 2005 from $124.6 million in 2004. The segment contributed net revenue of $29.0 million for 2005 compared to $30.7 million in 2004. The decreases were due to warmer weather in 2005 compared to 2004 and the reduction in the Trust's ownership interest in the NGD businesses, more than offsetting AltaGas Utilities' anticipated rate increases to recover higher operating costs and amortization.

Operating and administrative expenses recorded for the period January 1 to November 16, 2005 were lower than for the twelve months ended December 31, 2005 due to the spin-out, partially offset by higher costs for the period for which results were reported in the NGD segment.

Amortization costs recorded for the period January 1 to November 16, 2005 were higher than for the twelve months ended December 31, 2005 due to higher amortization costs resulting from a depreciation study conducted by AltaGas Utilities in 2004, which formed the basis of the increased amortization costs approved by the Alberta Energy and Utilities Board.

CORPORATE

The Corporate segment includes corporate assets and related revenues and expenses not directly identifiable with the operating segments. It is not practical to separate the results for the Corporate segment from the 2004 and 2003 operating segment results due to the sharing and allocation of certain costs. In 2005, corporate costs were reported in their own segment, whereas in the comparative periods they were included in the operating segments.

Financial Results ($ millions)	2005
Revenue	**10.9**
Operating and administrative expense	**15.8**
Amortization	**2.0**
Operating income	**(6.9)**

Business Activities

The Corporate segment assets include investments in public and private entities and assets such as leasehold improvements, computers, furniture and equipment. Revenue includes equity income recognized on investments for which the Trust uses the equity method of accounting and dividends received from investments which are accounted for by the cost method. Gains or losses resulting from dispositions of investments are also included in revenue. Corporate

segment expenses include the costs of the Executive Committee, the finance, treasury, financial reporting, financial planning, securities and tax compliance, legal, business development and human resources functions, and other corporate activities not directly attributable to an operating segment and a portion of shared services costs.

Results of Operations

The net cost of the Corporate segment was $6.9 million for 2005. Earnings from investments partially offset the operating and administrative costs and amortization related to the corporate functions.

Revenue for the segment was $10.9 million in 2005, which was mainly attributable to pre-tax gains related to the disposition of investments in Utility Group and Taylor. The details are as follows:

- AltaGas disposed of 1.4 million limited partnership units of Taylor for proceeds of $12.8 million, realizing a pre-tax gain of $4.8 million;
- Taylor issued 13.0 million units, diluting the Trust's ownership interest. As a result, AltaGas recognized a pre-tax dilution gain of $4.4 million;
- The Trust sold 1.7 million common shares of Utility Group and recognized a pre-tax gain of $0.8 million. Utility Group completed the initial public offering of 390,000 common shares and the Trust recognized a pre-tax dilution gain of $0.1 million related to this transaction. The after-tax impact of the spin-out was a net loss of $0.1 million;
- Equity income due to the Trust's ownership interests in Taylor and Utility Group; and
- An investment in the shares of a private company was written down resulting in a pre-tax charge of $0.6 million.

Operating and administrative expenses were $15.8 million for 2005. Prior to 2005, these costs were allocated to the operating segments. The Trust also incurred increasing costs to support the growth of the Trust and like most public entities, is incurring significant costs to meet new certification requirements for reporting issuers by the Canadian Securities Administrators. In 2005 costs to comply with certification requirements were approximately $1.0 million in consulting fees.

Amortization expense was $2.0 million for 2005. Prior to 2005, these costs were allocated to the operating segments.

For the period November 17 to December 31, 2005 the contribution from the ongoing investment in Utility Group was approximately $1.0 million, including the equity income from Utility Group during the period as well as interest savings from the reduction in debt levels as a result of the spin-out.

INVESTED CAPITAL

During 2005, AltaGas acquired $90.2 million in capital assets, energy services arrangements, contracts and relationships and long-term investments, compared to $134.3 million in the previous year. Growth capital accounted for $78.1 million and included the FG&P acquisition of Blair Creek, the expansion of the Marten Creek and Windfall facilities, and the construction of the Shaunavon facility, which in total increased FG&P capacity by 49 Mmcf/d. Expenditures in 2005 included capital related to the Clear Prairie and Princess gas processing projects, with 35 Mmcf/d in combined new capacity commissioned early in the first quarter of 2006.

In the Energy Services segment, growth capital was due to the acquisition of the iQ2 Power Corp. assets.

In the NGD segment, growth capital was related to expansion of distribution facilities to support economic growth in its franchise areas. Growth capital also included the shares of Utility Group now classified as long-term investments in the Corporate segment as a result of the spin-out of the NGD business.

Growth capital expenditures in 2004 were $123.1 million and included expansion within the Gathering and Processing segment and the acquisition of EEEP, investments in limited partnership units of Taylor, the acquisition of the businesses of PremStar and the Alberta peaking plants capital lease.

Maintenance capital projects amounting to $8.0 million in 2005 ($6.4 million in 2004) were undertaken mainly in the FG&P and NGD segments. Also spent in 2005 was $4.1 million ($4.8 million in 2004) on administrative capital requirements, which include computer hardware and software projects expected to increase the effectiveness of the operating and administrative functions of the Trust.

For year ended December 31, 2005 ($ millions)	Field Gathering and Processing	Extraction and Transmission	Power Generation	Energy Services	Natural Gas Distribution	Corporate	Total
Invested capital:							
Capital assets	53.4	1.6	–	1.4	10.8	3.5	70.7
Energy services arrangements, contracts and relationships	–	–	–	4.2	–	–	4.2
Long-term investments and other assets	–	–	–	–	0.4	14.9	15.3
	53.4	1.6	–	5.6	11.2	18.4	90.2
Disposals:							
Capital assets	(7.1)	–	–	–	(203.0)	–	(210.1)
Long-term investments and other assets	–	–	–	–	(2.7)	(6.6)	(9.3)
	(7.1)	–	–	–	(205.7)	(6.6)	(219.4)
Net invested capital	46.3	1.6	–	5.6	(194.5)	11.8	(129.2)

Invested capital by segment presented on the prior year's basis would have been as follows:

For year ended December 31, 2005 ($ millions)	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Invested capital:				
Capital assets	57.8	2.1	10.8	70.7
Energy services arrangements, contracts and relationships	–	4.2	–	4.2
Long-term investments and other assets	14.9	–	0.4	15.3
	72.7	6.3	11.2	90.2
Disposals:				
Capital assets	(7.1)	–	(203.0)	(210.1)
Long-term investments and other assets	(6.6)	–	(2.7)	(9.3)
	(13.7)	–	(205.7)	(219.4)
Net invested capital	59.0	6.3	(194.5)	(129.2)

For year ended December 31, 2004 ($ millions)	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Invested capital:				
Capital assets	77.6	15.1	9.6	102.3
Energy services arrangements, contracts and relationships	–	18.4	–	18.4
Long-term investments and other assets	12.8	–	0.8	13.6
	90.4	33.5	10.4	134.3
Disposals:				
Capital assets	(0.7)	–	–	(0.7)
Long-term investments and other assets	(3.4)	–	–	(3.4)
	(4.1)	–	–	(4.1)
Net invested capital	86.3	33.5	10.4	130.2

AltaGas' categorizes its invested capital into maintenance, growth and administrative.

For year ended December 31, 2005 ($ millions)	Field Gathering and Processing	Extraction and Transmission	Power Generation	Energy Services	Natural Gas Distribution	Corporate	Total
Invested capital:							
Maintenance	2.0	1.4	–	1.1	3.5	–	8.0
Growth	50.8	0.2	–	4.4	7.1	15.6	78.1
Administrative	0.6	–	–	0.1	0.6	2.8	4.1
	53.4	1.6	–	5.6	11.2	18.4	90.2
Disposals	(7.1)	–	–	–	(205.7)	(6.6)	(219.4)
Net invested capital	46.3	1.6	–	5.6	(194.5)	11.8	(129.2)

The breakdown for 2005, including invested capital presented on the prior year's basis, would have been as follows:

For year ended December 31, 2005 ($ millions)	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Additions:				
Maintenance	3.4	1.1	3.5	8.0
Growth	66.5	4.5	7.1	78.1
Administrative	2.8	0.7	0.6	4.1
	72.7	6.3	11.2	90.2
Disposals	(13.7)	–	(205.7)	(219.4)
Net invested capital	59.0	6.3	(194.5)	(129.2)

For year ended December 31, 2004 ($ millions)	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Additions:				
Maintenance	3.4	0.2	2.8	6.4
Growth	83.6	33.0	6.5	123.1
Administrative	3.4	0.3	1.1	4.8
	90.4	33.5	10.4	134.3
Disposals	(4.1)	–	–	(4.1)
Net invested capital	86.3	33.5	10.4	130.2

FINANCIAL INSTRUMENTS

The Trust is exposed to market risk and potential loss from changes in the value of financial instruments. AltaGas enters into financial derivative contracts such as swaps and collars to manage exposure to fluctuations in commodity prices and interest rates, particularly in the Power Generation segment and with respect to interest rates on debt.

Commodity Risk

The Power Generation segment results are significantly affected by the price of electricity in Alberta. AltaGas employs derivative commodity instruments for the purpose of managing the Trust's exposure to power price volatility. Alberta Power Pool prices ranged from \$4.66/MWh to \$999.99/MWh in 2005.

Through the use of financial hedges on that portion of its 2005 power portfolio that management deemed optimal, AltaGas moderated the impact of this volatility on its business.

Interest Rate Risk

AltaGas reduces the effect of future interest rate movements on its cash flows through the use of interest rate swaps.

At December 31, 2005 the Trust had interest rates fixed through swap transactions with varying terms to maturity on drawn bank debt of $150.0 million. Including AltaGas' medium-term notes and capital leases, the rate has been fixed on 97 percent of AltaGas' total debt. The amount of fixed-rate debt was higher than the Trust's target of 70 to 75 percent of total debt due to the proceeds of the June 2004 equity offering and proceeds from the November 2005 NGD spin-out, which were applied to floating-rate debt.

LIQUIDITY AND CAPITAL RESOURCES

AltaGas expects that 2006 funds from operations will be sufficient to meet the Trust's distributions to unitholders and the majority of its budgeted maintenance and growth capital. The balance of its budgeted growth capital and a certain amount of unbudgeted acquisitions will be financed through the DRIP and existing bank lines. Should larger acquisitions require financing beyond existing sources, management is confident, based on historical success, that equity and debt capital markets could be accessed to provide additional financing. At this time AltaGas does not reasonably expect any presently known trend or uncertainty to affect the Trust's ability to access its historical sources of cash.

Cash Flows

Cash Flows

($ millions)	2005	2004
Cash from operations	112.3	147.7
Investing activities	46.3	(121.8)
Financing activities	(159.2)	(13.6)
	(0.6)	12.3

Cash from Operations

The cash from operations reported on the Consolidated Statements of Cash Flows was $112.3 million for the year ended 2005, down 24 percent from $147.7 million in 2004. There was a significant working capital deficiency at the end of 2004 due to $100.0 million of medium-term notes due on October 4, 2005 being classified as current portion of long-term debt. The issuance of $100.0 million of new MTNs in August 2005 provided the liquidity to repay the older issuance, and reduced the working capital deficiency by $100.0 million.

Funds generated from operations, before giving effect to changes in working capital, asset retirement obligation cost and other, increased to $128.2 million for the year ended December 31, 2005 from $108.6 million for the year ended December 31, 2004. The growth in funds generated from operations is more representative of the cash from the ongoing operations of the business than is the cash from operations reported on the Consolidated Statements of Cash Flows.

Working Capital

($ millions except ratio amounts)	December 31, 2005	December 31, 2004
Current assets	252.3	194.8
Current liabilities	255.1	301.3
Working capital (deficiency)	(2.8)	(106.5)
Current ratio	0.99	0.65

Investing Activities

During 2005, the Trust generated cash from investing activities of $46.3 million compared to using cash of $121.8 million for investing activities in 2004. The 2005 acquisition of capital assets, energy services arrangements and contracts and long-term investments and other assets, of $58.7 million was substantially less than the $108.5 million spent in 2004. A description of the acquisitions and investments comprising these amounts is in the Invested Capital section of this MD&A. The cash invested in 2005 was offset by cash proceeds of $12.8 million received on the first quarter disposition of limited partnership units of Taylor, and the $85.4 million received in fourth quarter on the spin-out of the NGD segment.

Financing Activities

Cash used for financing activities was $159.2 million in 2005, an increase of $145.6 million from the $13.6 million in 2004. Significant financing activities were as follows:

- On August 30, 2005, AltaGas issued $100.0 million of MTNs under the Trust's Universal Shelf Prospectus. The MTNs bear interest at 4.41 percent, mature September 1, 2010 and the proceeds were used to repay bank debt;
- On October 4, 2005, $100.0 million of maturing 7.28 percent MTNs were repaid using bank debt;
- Cash proceeds of $85.4 million received on the spin-out of the NGD segment were used to repay long-term bank debt; and
- The Trust paid $99.2 million in cash distributions to unitholders and received $30.5 million in cash proceeds primarily from the issuance of units under the DRIP and through the issuance of units upon the exercise of employee stock options.

Capital Resources

The Trust believes that its access to debt and equity markets, unused bank credit facilities, funds generated from operations and funds generated from the Trust's Distribution Reinvestment and Premium Distribution™ programs will provide it with sufficient capital resources and liquidity to fund existing operations, future distributions and certain acquisition and expansion opportunities in 2006.

The use of debt or equity funding is based on the Trust's target capital structure, which is determined by considering the norms and risks associated with each of its business components and segments. As an income trust, in 2004 AltaGas targeted a debt-to-total capitalization ratio of 45 to 50 percent. Subsequent to the NGD spin-out, AltaGas' target debt-to-total capitalization ratio is 40 to 45 percent. The Trust's debt-to-total capitalization ratio as at December 31, 2005 decreased to 36.0 percent from 42.6 percent at December 31, 2004.

Given the debt-to-total capitalization at December 31, 2005, and expected increases in equity from DRIP, AltaGas estimates that it can finance up to $100 million in expenditures over 2006 using debt before reaching the upper end of its target debt-to-total capitalization ratio.

Credit Facilities ($ millions)	Borrowing capacity	**Drawn at December 31, 2005**	Drawn at December 31, 2004
Demand operating facility(1)	50.0	**2.7**	7.0
Letter of credit facility, may borrow $25.0 million(1)	75.0	**–**	–
Syndicated operating credit facility	300.0	**154.1**	239.2
Medium-term notes	100.0	**100.0**	100.0
	525.0	**256.8**	346.2

(1) $6.9 million of letters of credit are outstanding against the demand facility at both December 31, 2005 and 2004. $37.3 million of letters of credit are outstanding against the letter of credit facility at December 31, 2005 ($28.7 million – 2004).

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities, which must be met at each quarter-end. AltaGas has been in compliance with these covenants each quarter since the issuance of the facilities.

On April 29, 2005 AltaGas filed a Universal Shelf Prospectus under which it may issue up to an aggregate of $500.0 million of trust units or debt securities over a 25-month period. On August 30, 2005, $100.0 million of five-year MTNs were issued with a coupon of 4.41 percent.

The Dominion Bond Rating Service (DBRS) rates AltaGas Income Trust and the MTNs issued by AltaGas Income Trust at BBB (low) with a stable trend. Standard & Poor's (S&P) rates the Trust's long-term corporate credit at BBB- with a stable outlook, and the senior unsecured debt at BBB-. The Trust has a stability rating of SR-3 from S&P and STA-3 (middle) from DBRS.

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of an entity to meet its financial commitment on an obligation in accordance with the terms of an obligation. Stability ratings are intended to convey the opinion of a rating agency in respect of the relative stability and sustainability of the Trust's distribution stream when compared to other rated Canadian income trusts.

Contractual Obligations

AltaGas' contractual obligations and other commitments for the next five years and for the period thereafter are as follows:

($ millions)	Total	Payments Due by Period Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt	254.1	4.1	150.0[(1)]	100.0	–
Capital leases	16.3	1.9	3.8	3.8	6.8
Operating leases	8.3	3.6	4.1	0.4	0.2
Total contractual obligations	278.7	9.6	157.9	104.2	7.0

(1) Extendible revolving-term credit facility that can be extended beyond the current term date of September 30, 2008 for an additional year.

AltaGas entered into a capital lease with Maxim Energy Group Ltd. for the right to 25 MW of gas-fired power peaking capacity and its related ancillary service and peaking sales revenues. The contract has a 10-year term commencing September 1, 2004 and includes an option at the end of the initial term to extend the term for a further 15 years or to purchase the assets. The net present value of the lease commitment was initially for $13.8 million, $0.8 million of which was paid on closing with the balance due in monthly payments comprising principal and interest of $0.2 million.

The Trust has long-term operating lease agreements for office space, office equipment and automotive equipment.

Other Commitments

Under the terms of a 1997 long-term gas supply contract, the Trust is committed to supplying natural gas at prices ranging from $2.12/Mcf in 2004 to $2.40/Mcf by contract expiry in 2009. The Trust contracted with several producers to provide the volumes for the term of the 10-year contract. One of those producers defaulted on its obligation under its gas supply contract in 1999, resulting in the delivery commitment for 2,845 Mcf/d being assumed by the Trust. The Trust owns natural gas reserves as a hedge against the obligation under this supply contract. The natural gas produced from these reserves is in excess of the commitment under the contract.

The Trust has an energy contract with the Balancing Pool Administrator for the right and obligation to purchase power from 100 MW of power capacity at the EPCOR Generation Inc.-operated Genesee power plant for a three-year term ending March 31, 2006. The Trust has an obligation to pay a competitively priced, fixed monthly capacity charge for the power capacity under this contract.

TRUST UNIT INFORMATION

Under the terms of the restructuring of AltaGas into an income trust effective May 1, 2004, ASI securityholders exchanged their shares in ASI for trust units and eligible securityholders also received exchangeable units that are exchangeable into trust units on a one-for-one basis. The exchangeable units are not listed for trading on an exchange.

Units Outstanding

At January 31, 2006 the Trust had 52,647,760 trust units and 2,104,378 exchangeable units outstanding and a market capitalization of $1.6 billion based on a closing trading price on January 31, 2006 of $30.17 per trust unit. At January 31, 2006 there were 358,200 options outstanding and 44,000 options exercisable under the terms of the unit option plan.

CHANGES IN ACCOUNTING POLICIES

Consolidation of Variable Interest Entities

The Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 15 (AcG-15) "Consolidation of Variable Interest Entities," which is effective for annual and interim reporting periods commencing after November 1, 2004. This guideline requires organizations to assess any entity in which they may have a variable interest to determine whether or not the assets, liabilities and results of the entity's activities should be reported on other than a consolidated basis. AltaGas has determined there is no requirement to change its reporting with regard to interests in entities reported in its Consolidated Financial Statements.

Exchangeable Securities Issued by Subsidiaries of Income Trusts

On March 18, 2005 the CICA issued revised Emerging Issues Committee Abstract (EIC) 151 "Exchangeable Securities issued by Subsidiaries of Income Trusts". The EIC states that exchangeable securities issued by a subsidiary of an income trust should be reflected as either non-controlling interest or debt in the Consolidated Balance Sheets unless they meet certain criteria. The revised EIC became effective for annual and interim reporting periods ending on or after June 30, 2005. AltaGas has determined that it is compliant with the requirements of this guidance because exchangeable securities issued and outstanding by AltaGas LP#1 meet the criteria for equity presentation and as a result, EIC 151 has no effect on AltaGas.

Conditional Asset Retirement Obligations

Effective December 6, 2005 the CICA issued EIC 159 "Conditional Asset Retirement Obligations". This Abstract provides additional guidance concerning when to recognize a conditional asset retirement obligation. As stated in the Notes to the Consolidated Financial Statements, certain of AltaGas' assets in the E&T segment have an indeterminate life and thus an asset retirement obligation is not recognized as AltaGas does not have sufficient information to reasonably estimate the fair value of the conditional asset retirement obligation. The CICA requires that this Abstract should be applied retroactively, with restatement of prior periods, for interim and annual reporting periods ending after March 31, 2006. AltaGas has determined there is no requirement to change its reporting with regard to recognition of conditional asset retirement obligations in its Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

Since a determination of the value of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Trust's Consolidated Financial Statements requires the use of estimates and assumptions which have been made using careful judgment. AltaGas' significant accounting policies are contained in the Notes to the Consolidated Financial Statements. Certain of these policies involve critical accounting estimates as a result of the requirement to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

AltaGas' critical accounting estimates continue to be amortization expense, asset retirement obligations and asset impairment assessment. The following section describes the critical accounting estimates and assumptions that AltaGas has made and how they affect the amounts reported in the Consolidated Financial Statements.

Amortization

AltaGas performs assessments of amortization of capital assets and energy services arrangements, contracts and relationships. When it is determined that assigned asset lives do not reflect the estimated remaining period of benefit, prospective changes are made to the depreciable lives of those assets. Oil and gas capitalized costs are amortized to income on a unit-of-production basis over the estimated production life of proved reserves. Amortization is a critical accounting estimate because:

- There are a number of uncertainties inherent in estimating the remaining useful life of certain assets;
- There is also uncertainty related to assumptions about reserve quantities; and
- Changes in these assumptions could result in material adjustment to amount of amortization that the Trust recognizes from period to period.

Asset Retirement Obligations and Other Environmental Costs

The Trust records liabilities relating to asset retirement obligations and other environmental matters. Asset retirement obligations and other environmental costs is a critical accounting estimate because:

- The majority of the asset retirement costs will not be incurred for a number of years (most are estimated between 2025 and 2035), requiring the Trust to make estimates over a long period of time;
- Environmental laws and regulation could change, resulting in a change in the amount and timing of expenses anticipated to be incurred; and
- A change in any of these estimates could have a material impact on the Trust's Consolidated Financial Statements.

Asset Impairment

AltaGas reviews long-lived assets and intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability is determined based on an estimate of undiscounted cash flows, and measurement of an impairment loss is determined based on the fair value of the assets. This is a critical accounting estimate because:

- It requires management to make assumptions about future cash inflows and outflows over the life of an asset, which are susceptible to changes from period to period due to changing information available related to the determination of the assumptions; and
- The impact of recognizing an impairment may be material to the Trust's financial statements.

With respect to impairment assessment, management has made fair-value determinations related to goodwill, estimating future cash flows as well as appropriate discount rates. The estimates have been applied consistently with prior periods.

OFF-BALANCE-SHEET ARRANGEMENTS

The Trust is not party to any contractual arrangement under which an unconsolidated entity may have any obligation under certain guaranteed contracts, a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. The Trust has no obligation under derivative instruments, or a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support or engages in leasing, hedging or research and development services with the Trust.

RELATED PARTIES

The Trust sold $26.9 million of natural gas and recognized transport expense of $1.4 million to Utility Group, during the period November 17 to December 31, 2005.

There is an Administrative Service Agreement between the Trust and Utility Group whereby the Trust provides certain administrative and support services to Utility Group until December 31, 2007, and which may be extended by mutual agreement of the parties. AltaGas will receive $30,000 per annum in consideration for the services provided.

On August 19, 2004 the Trust purchased 1.6 million units of Taylor from Taylor's treasury. AltaGas paid $10.6 million for the investment.

On June 30, 2004 L.O.P. Inc. (LOP), an investee under significant influence, repaid the $2.3 million loan extended to it by the Trust. At the same time, the Trust sold its investment in LOP to LOP's majority shareholder for proceeds of $0.5 million. These transactions have been recorded at their exchange amounts.

The Trust pays rent under a lease for office space to 2013761 Ontario Inc., which is owned by an employee. Payments of $81,500 were made in 2005 (2004 – $21,500). The five-year lease expires in 2007 and is renewable at the option of AltaGas for another five years.

DISCLOSURE CONTROLS AND PROCEDURES

The Trust maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Act (Ontario) is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In accordance with Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), management carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures were effective as of December 31, 2005 to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified in the Ontario Securities Commission's rules and forms.

FOURTH QUARTER HIGHLIGHTS

The Trust's net income for the three months ended December 31, 2005 was $26.4 million compared to $25.8 million in the same period in 2004. Results were primarily impacted by higher operating income in the power business due to higher power prices received, higher throughput volumes and processing fees in FG&P, and lower interest expenses. These income increases were partially offset by the spin-out of the NGD business, higher power transmission costs, lower frac spreads, higher operating and administrative costs, and the $0.5 million write-down of an investment in a private company.

In the fourth quarter of 2005, operating income decreased by $0.4 million from the fourth quarter of 2004 to $29.0 million. The factors impacting results in the quarter were:

- Higher power prices received on the sale of power, and expansions and recent acquisitions in FG&P, offset by lower NGD segment results due to the spin-out, higher power transmission costs and lower frac spreads;
- A pre-tax gain of $0.8 million related to the disposition of 1.7 million common shares of Utility Group. The net after-tax impact of the spin-out was a loss of $0.1 million;
- Higher operating and administrative costs related to acquisitions and expansions, as well as costs related to new certification requirements for reporting issuers by the Canadian Securities Administrators; and
- The write-down of an investment in a private company.

Net revenue increased to $78.7 million in the fourth quarter of 2005 from $74.2 million in the same period of 2004. The increase was primarily due to higher average prices received on power volumes sold; acquisitions in the Energy Services and FG&P segments; higher gathering and processing fees, and higher operating cost recoveries. Increases were partially offset by the spin-out of the NGD segment; higher power transmission costs and lower frac spreads in the fourth quarter compared to the same quarter last year, as well as the write-down of $0.6 million of an investment in the shares of a private company.

SUMMARY OF CONSOLIDATED RESULTS FOR THE EIGHT MOST RECENTLY COMPLETED QUARTERS

($ millions)	Q4-05(3)	Q3-05	Q2-05	Q1-05	Q4-04	Q3-04	Q2-04	Q1-04
Net revenue(1)	**78.7**	**71.3**	**67.5**	**79.4**	74.2	60.6	59.1	56.5
Operating income	**29.0**	**22.9**	**22.0**	**34.2**	29.4	23.4	17.6	21.2
Net income	**26.4**	**17.2**	**19.1**	**27.6**	25.8	17.1	11.9	11.0
($ per unit)								
Net income								
Basic	**0.48**	**0.32**	**0.35**	**0.52**	0.49	0.33	0.25	0.24
Diluted	**0.48**	**0.32**	**0.35**	**0.52**	0.48	0.33	0.25	0.24
Dividends/distributions declared(2)(3)	**0.48**	**0.47**	**0.45**	**0.45**	0.45	0.45	0.30	0.11

(1) Non-GAAP financial measure. See discussion on page 25.
(2) On August 10, 2005 the Trust announced an increase in the monthly distribution to $0.16 per unit. The distributions for the second quarter of 2004 are for the period starting May 1, 2004, the effective date of the inception of the Trust. Prior to May 1, 2004 ASI declared quarterly dividends from the first quarter of 2001 through the first quarter of 2004.
(3) Excludes share distribution as a result of the spin-out of the NGD segment. The Trust issued one common share of Utility Group (valued at $7.50 per share) for every 13.9592 trust units held on November 14, 2005, providing additional value of $0.54 per unit.

Identifiable trends in AltaGas' business in the past eight quarters reflect the organization's conversion to a trust; its internal growth; acquisitions; a favourable business environment including generally increasing power prices in Alberta; seasonality in the NGD business; and asset dispositions.

The conversion to a trust was effective May 1, 2004. Operating performance improvements, acquisitions, gains on asset dispositions and a positive income tax impact resulting from the reorganization into a trust contributed to period-over-period improvements in the results.

Significant items that impacted individual quarterly earnings were as follows:

- Net income for the first quarter of 2004 included approximately $0.4 million of net income contributed from the Rainbow Lake gathering and processing facilities acquired in late 2003;
- Second quarter 2004 net income was unfavourably impacted by $2.4 million in non-cash compensation expense recorded as the result of all outstanding unvested employee trust unit options vesting effective May 1, 2004, and by trust conversion costs of $3.5 million, partially offset by lower income tax expense resulting from the conversion to a trust;
- Net income in the third quarter of 2004 reflected continuing trust conversion costs, with AltaGas recording $0.9 million of trust conversion expenses for the quarter. During the quarter AltaGas also closed the acquisition of a 48 $^{2}/_{3}$ percent interest in EEEP from BP Canada Energy Resources Company;
- Fourth quarter 2004 net income included the results of the PremStar businesses, acquired on October 6, 2004, which increased net income by $1.4 million;
- Net income for the first quarter of 2005 included a $7.9 million after-tax gain related to the change in the Trust's ownership interest in Taylor;
- Second quarter 2005 net income included an after-tax loss of $0.5 million related to the Trust's ownership interest in Taylor; and
- Fourth quarter 2005 results are highlighted on page 45.

SENSITIVITY ANALYSIS

The following table illustrates the anticipated effects of possible economic and operational changes on AltaGas' expected 2006 net income.

Factor Share	Increase or decrease	Increase or decrease net income per unit
Field gathering and processing volumes at existing facilities	5 Mmcf/d	0.012
Field gathering and processing operating margin per Mcf	1 cent/Mcf	0.025
Electricity prices	$1/MWh	0.011
Natural gas prices	$0.50/Mcf	0.001
Natural gas liquids fractionation spread	$1/Bbl	0.005
Interest rates	25 basis points	0.000

OUTLOOK

AltaGas has grown through acquisitions in the past and expects to continue doing so in order to achieve growth in the future, but only as strategic and economic opportunities are identified and meet the Trust's investment criteria. In the current environment, pricing multiples being paid to acquire assets are at levels not previously seen. The Trust's management intends to adhere to the fundamental business principles it has in the past to ensure that acquisitions provide long-term stable earnings and cash flows, minimize risk concentrations and create long-term value for unitholders.

UNITHOLDER LIMITED LIABILITY LEGISLATION

On July 1, 2004, the Income Trusts Liability Act (Alberta) came into force, which provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the Trustee that arises after the particular provision of such legislation comes into force.

The AltaGas Income Trust indenture itself provides that no unitholder will be subject to any liability in connection with the Trust or its obligations and affairs or for any act or omission of the Trustee of the Trust, provided that in the event that a court determines that unitholders are subject to such liabilities, the liabilities will be enforceable only against and will be satisfied out of the Trust's assets. The Trust indenture also provides that contracts to which the Trust is a party should contain language restricting the liability of unitholders.

Management's Responsibility for Financial Statements

Management recognizes that it is responsible for the preparation of the Consolidated Financial Statements and is satisfied that these statements have been prepared using Canadian generally accepted accounting principles and are within reasonable limits of materiality. Further, management is satisfied that the financial information contained in this annual report is consistent with that presented in the Consolidated Financial Statements. The Trust's internal controls and systems are designed to provide reasonable assurance that its assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information. External auditors have been engaged by the Trust to examine the Consolidated Financial Statements. The Audit Committee of the Board of Directors has reviewed these statements with the external auditors and management and has reported its findings to the Board. The Board of Directors, on the recommendation of the Audit Committee, has approved the Consolidated Financial Statements contained in this report.

DAVID W. CORNHILL
Chairman, President and Chief Executive Officer of AltaGas General Partner Inc., delegate of the Trustee of AltaGas Income Trust
March 1, 2006

PATRICIA M. NEWSON
Senior Vice President Finance and Chief Financial Officer of AltaGas General Partner Inc., delegate of the Trustee of AltaGas Income Trust
March 1, 2006

Auditors' Report

TO THE UNITHOLDERS OF ALTAGAS INCOME TRUST

We have audited the consolidated balance sheets of AltaGas Income Trust as at December 31, 2005 and 2004 and the consolidated statements of income and accumulated earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of AltaGas Income Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

ERNST & YOUNG, LLP
Chartered Accountants
March 1, 2006

Calgary, Canada

Consolidated Balance Sheets

As at December 31 ($ thousands)	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents *(note 5)*	$ 11,685	$ 12,301
Accounts receivable	220,684	160,507
Inventory	95	250
Customer deposits	15,371	16,918
Other	4,421	4,845
	252,256	194,821
Capital assets *(notes 6 and 10)*	645,442	746,729
Energy services arrangements, contracts and relationships *(note 7)*	110,850	113,102
Goodwill	18,860	18,860
Future income taxes *(note 16)*	–	208
Long-term investments and other assets *(note 8)*	40,921	34,876
	$ 1,068,329	$ 1,108,596
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 215,601	$ 154,226
Distributions payable to unitholders	8,744	7,979
Short-term debt *(note 9)*	2,710	7,016
Current portion of long-term debt *(note 10)*	1,071	101,001
Customer deposits	15,371	16,918
Other	11,586	14,193
	255,083	301,333
Long-term debt *(note 10)*	265,245	251,462
Asset retirement obligations *(note 11)*	16,982	16,122
Future income taxes *(note 16)*	52,433	56,164
	334,660	323,748
Unitholders' equity *(notes 13 and14)*	478,586	483,515
	$ 1,068,329	$ 1,108,596

Commitments *(notes 2, 7, 9, 10, 12, 15 and 19)*

See accompanying notes to the Consolidated Financial Statements.

Approved by the Board of Directors of AltaGas General Partner Inc. on behalf of AltaGas Income Trust:

DAVID W. CORNHILL
Director

DARYL H. GILBERT
Director

Consolidated Statements of Income and Accumulated Earnings

For the years ended December 31 ($ thousands except per unit and units amounts)	2005	2004
REVENUE		
Operating	$ 1,491,621	$ 862,732
Other	10,725	1,877
	1,502,346	864,609
EXPENSES		
Cost of sales	1,205,481	614,251
Operating and administrative	141,382	116,981
Amortization:		
Capital assets	40,886	35,609
Energy services arrangements and contracts	6,486	6,217
	1,394,235	773,058
Operating income	108,111	91,551
Interest expense *(notes 9, 10 and 12)*		
Short-term debt	576	563
Long-term debt	18,515	20,576
Income before income taxes	89,020	70,412
Income tax expense (recovery) *(note 16)*	(1,268)	4,611
Net income	90,288	65,801
Accumulated earnings, beginning of year	196,819	131,018
Accumulated earnings, end of year	$ 287,107	$ 196,819
Net income per unit *(note 14)*		
Basic	$ 1.67	$ 1.33
Diluted	$ 1.67	$ 1.31
Weighted average numbers of units outstanding (thousands) *(note 14)*		
Basic	54,011	49,385
Diluted	54,088	50,169

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31 ($ thousands)	2005	2004
Cash from operations		
Net income	$ 90,288	$ 65,801
Items not involving cash:		
Amortization	47,372	41,826
Accretion of asset retirement obligations *(note 11)*	1,326	1,094
Stock option compensation	16	2,490
Future income tax recovery *(note 16)*	(3,364)	(3,104)
Gain on sale of assets and investment transactions	(9,573)	(24)
Equity income	(1,141)	(1,853)
Distributions from equity investments	2,874	1,976
Other	427	378
Funds generated from operations	128,225	108,584
Asset retirement obligation cost and other *(note 11)*	(183)	(205)
Net change in non-cash working capital *(note 17)*	(15,732)	39,327
	112,310	147,706
Investing activities		
Decrease (increase) in customer deposits	1,547	(16,918)
Acquisition of capital assets	(53,965)	(94,786)
Disposition of capital assets	5,030	157
Acquisition of energy services arrangements and contracts	(3,868)	(12)
Acquisition of long-term investments and other assets	(855)	(13,693)
Disposition of long-term investments and other assets *(note 8)*	13,027	3,444
Proceeds on spin-out of Natural Gas Distribution segment *(note 4)*	85,383	–
	46,299	(121,808)
Financing activities		
Increase (decrease) in short-term debt	(4,235)	3,225
Decrease in long-term debt	(86,217)	(54,704)
Dividends	–	(5,051)
Distributions to unitholders	(99,249)	(53,672)
Cost of issuing units on conversion *(note 14)*	–	(8,620)
Net proceeds from issuance of units and common shares *(note 14)*	30,476	105,225
	(159,225)	(13,597)
Change in cash and cash equivalents	(616)	12,301
Cash and cash equivalents, beginning of year	12,301	–
Cash and cash equivalents, end of year	$ 11,685	$ 12,301

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise indicated.)

1. STRUCTURE OF ALTAGAS INCOME TRUST

AltaGas Income Trust (AltaGas or the Trust) is an unincorporated open-ended trust established under the laws of Canada, pursuant to a Declaration of Trust dated March 26, 2004. The Trust commenced operations on May 1, 2004 as successor to AltaGas Services Inc. (ASI) when it acquired all of the shares of ASI for consideration of trust units or exchangeable units on a one-for-one basis. These audited Consolidated Financial Statements follow the continuity of interest basis of accounting whereby the Trust is considered a continuation of ASI. As a result, the comparative statements of income and cash flow include ASI's results of operations for the period up to and including April 30, 2004 and the Trust's results of operations from May 1, 2004 to December 31, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Significant accounting policies are summarized below:

Basis of Presentation

These Consolidated Financial Statements include the accounts of AltaGas Income Trust and all of its wholly owned subsidiaries, and its proportionate interests in various partnerships and joint ventures. Transactions between the Trust, wholly owned subsidiaries and the proportionate interests are eliminated on consolidation.

On November 17, 2005 AltaGas completed the spin-out of AltaGas Utility Group Inc. (Utility Group), as described in Note 4. Prior to the spin-out, this business was owned by AltaGas. Subsequent to the spin-out AltaGas retained a 26.7 percent interest in the common shares of Utility Group. The revenue, expenses and cash flows of the Natural Gas Distribution (NGD) business are consolidated up to November 17, 2005. Subsequent to the completion of the spin-out, AltaGas accounts for its interest in Utility Group as an equity investment.

Business Combinations

All business combinations are accounted for using the purchase method. Under the purchase method assets and liabilities of the acquired entity are recorded at fair value. The excess of the purchase price over the fair value of the assets and liabilities acquired is recorded as goodwill.

Regulation

Up until November 17, 2005, AltaGas Utilities Inc. (AltaGas Utilities) was wholly owned by AltaGas. AltaGas Utilities engages in the distribution and sale of natural gas in various communities located within the province of Alberta and is regulated by the Alberta Energy and Utilities Board (EUB). The EUB exercises statutory authority over matters such as rates, financing, accounting, construction and contracts with customers. In order to recognize the economic effect of the actions and decisions of the EUB, the timing of recognition of certain revenues and expenses may differ from that otherwise expected under GAAP for non rate-regulated entities.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments with maturities less than three months.

Inventory

Materials and supplies are valued at the lower of average cost and replacement cost. Natural gas inventories are valued at the lower of cost or current market values.

Customer Deposits

Cash deposited by customers under the terms of natural gas and power marketing contracts is invested in short-term deposits with a Canadian chartered bank. These funds are restricted and are not available for general use by the Trust. The corresponding liability is classified as customer deposits within current liabilities.

Capital Assets and Amortization

Capital assets are recorded at cost plus interest incurred during the construction period to finance long-term construction projects. Prior to the spin-out of the Trust's regulated business on November 17, 2005, the allowance for funds used during the construction of regulated natural gas distribution assets were capitalized at rates authorized by the regulatory authorities in Alberta and Nova Scotia. Contributions in aid of construction of natural gas distribution assets are deducted from the cost of acquiring capital assets, with subsequent amortization calculated on the net cost. Repairs and maintenance costs are expensed in the period incurred.

The Trust amortizes the cost of capital assets, net of salvage value, on a straight-line basis based on the estimated useful life of the assets, except for regulated natural gas distribution assets, where amortization is calculated on a straight-line basis at rates approved by the regulatory authority.

Field Gathering and Processing	
Gathering and processing assets	15 – 40 years
Other assets	1 – 5 years
Extraction and Transmission	
Extraction and transmission assets	15 – 40 years
Power Generation	
Assets under capital lease	10 years
Energy Services	
Energy services assets	8 – 19 years
Other assets	1 – 5 years
Natural Gas Distribution	
Natural gas distribution assets	0.9 – 25.7 percent
Other assets	3.1 – 57.9 percent
Corporate	
Other assets	1 – 5 years

AltaGas follows the full cost method of accounting for oil and gas exploration and development activities. Capitalized costs are accumulated in a single cost centre and amortized to income on a unit-of-production basis over the estimated production life of proved reserves.

Leases are classified as either capital or operating. Leases which transfer substantially all the benefits and risks of ownership of property to AltaGas are accounted for as capital leases. Assets under capital leases are accounted for as assets and are amortized on a straight-line basis over the lease term. The capital lease obligations reflect the present value of future lease payments. The finance element of the lease payments is charged to income over the term of the lease. Commitments to repay the principal amounts arising under capital lease obligations are included in current liabilities to the extent that the amount is repayable within one year; otherwise the principal is included as a long-term liability.

Energy Services Arrangements, Contracts, Relationships and Amortization

Energy services arrangements, contracts and relationships are recorded at cost which was fair value at the time of purchase, and are amortized on a straight-line basis over their term or estimated useful life:

Sundance Power Purchase Arrangements (PPAs)	19 years
Natural gas and power marketing contracts	18 – 49 months
Energy services relationships	15 years

AltaGas owns 50 percent of two Sundance B PPAs through its interest in the ASTC Power Partnership (ASTC). ASTC is committed to purchase all of the power from the two 353-MW capacity Sundance generating units. The investment in the PPAs and the revenue and expenses thereunder are recorded on a proportionate basis. The Sundance B PPAs are the right to the committed generating capacity of two regulated Alberta generating units and required a capital outlay to acquire. The Trust is obligated to make payments to the owners of the underlying generating units over the remaining terms of the PPAs to December 31, 2020. Such amounts are recorded as cost of sales as incurred. Revenue from the sale of the committed power is recorded when delivered.

The Genesee power purchase arrangement, or PPA, is the right to generating capacity at a regulated Alberta generating unit for a three-year period ending March 31, 2006 that required no capital outlay but includes monthly capacity charges, which amounts are recorded as cost of sales. Revenue from the sale of the committed power is recorded when delivered.

The natural gas and power marketing contracts are the rights and obligations to buy and sell fixed volumes of natural gas and power at contracted prices. Revenue and expenses are recorded when product is delivered.

Energy services relationships were purchased along with substantially all of the assets and liabilities of iQ2 Power Corp. (iQ2), PremStar Energy Canada Ltd., ECNG Canada Ltd. and Energistics Inc. and are recorded at fair value and amortized on a straight-line basis commencing with the termination of the related short-term contracts over the 15-year expected useful life of the relationships.

Goodwill

Goodwill represents that portion of the purchase price of the Suffield natural gas pipeline system which was in excess of the fair value of the net assets acquired. Goodwill is not subject to amortization but is tested at least annually for impairment by comparing the fair value of the natural gas transmission asset with its book value.

Long-Term Investments and Other Assets

Investments in entities in which AltaGas has the ability to exercise significant influence are accounted for by the equity method. Other long-term investments are recorded at cost. Any other than temporary impairment in value of an investment is charged against income when determined.

Asset Retirement Obligations

The Trust recognizes asset retirement obligations in the period in which the obligation is incurred and a reasonable estimate of a fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and are depreciated over the estimated useful life of the asset. The liability is increased due to the passage of time over the estimated period until the settlement of the obligation, with an offsetting charge to accretion expense in the income statement.

In the NGD and Extraction and Transmission (E&T) segments, certain of AltaGas' assets have an indeterminate life and thus a future retirement obligation is not recognized.

Derivative Instruments

AltaGas enters into financial derivative contracts such as swaps and collars to manage exposure to fluctuations in commodity prices and interest rates. These contracts are designated as hedges when the underlying risks of the hedged and hedging instruments offset to manage the Trust's exposure. Gains and losses relating to such contracts are deferred and recognized in the same period and financial statement category as the corresponding hedged transaction. If financial derivative contracts cease to be effective as hedges or if the hedge relationship is terminated, any cumulative gains or losses arising prior to such time continue to be deferred over the period of the original hedged transaction and subsequent changes in the fair value of the derivative contracts are recognized as adjustments to income. The effectiveness of hedges is tested quarterly to ensure the correlation of the underlying risks.

AltaGas enters into commodity derivative contracts for the future delivery of commodities at fixed prices. These contracts are not recognized in the financial statements until they are settled.

Revenue Recognition

In the Field Gathering and Processing segment and transmission business, revenue is recorded as the services are rendered. In the extraction business, Power Generation, Energy Services and Natural Gas Distribution segments, revenue is recognized at the time the product is delivered.

Unit-Based Compensation Plans

The Trust follows the fair value method of accounting for trust unit options granted during the year. Unit options are valued at the date of the grant and recognized as compensation expense over the vesting period of the options. Consideration received by the Trust on exercise of the option rights is credited to unitholders' capital.

AltaGas has an incentive phantom unit plan which requires settlement by cash payments. During the graded vesting period, compensation expense is recognized using the liability method and is recorded as operating and administrative expense over the life of the vesting period. A change in value of the phantom units is recognized in the period the change occurs.

Pension Plans and Retirement Benefits

The cost of defined-benefit pension and other retirement benefits is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The current service cost of the benefit is the sum of the individual current service costs and the accrued benefit obligation is the sum of the accrued liabilities for all participants.

For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The cumulative net actuarial gain or loss at the beginning of the year in excess of 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service life of the active employees. The average remaining service periods of the active members covered by the pension plans and other retirement benefits plans are 14 to 16 years. Transitional obligations are being amortized on a straight-line basis over the remaining service life of active employees. Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining service life of active employees for the respective plan.

Income Taxes

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable on income that is not distributed or distributable to the unitholders. As the Trust allocates all of its Canadian taxable income to the unitholders in accordance with its Trust indenture and meets the requirements of the Income Tax Act (Canada) applicable to the Trust, no provision for Canadian income tax expense has been made for the Trust.

Except for rate-regulated NGD subsidiaries, income taxes are calculated in the subsidiary companies of the Trust using the liability method of tax accounting. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are anticipated to be in effect in the periods in which the differences are expected to be settled or realized.

Income taxes in the rate regulated natural gas distribution subsidiaries are provided using the taxes payable method approved by the regulatory authorities. In accordance with regulated accounting, provision is made only for those income taxes currently payable and no future tax is recorded on the differences between the financial reporting and tax bases of assets and liabilities.

Related Party Transactions

Transactions with related parties that are conducted in the normal course of operations have been recorded at the exchange amount.

Per Unit Information

Basic net income per unit is calculated on the basis of the weighted average number of trust and exchangeable units outstanding during the year. Diluted net income per unit is calculated as if the proceeds obtained upon exercise of options were used to purchase units at the average market price during the year.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

3. ACQUISITIONS

On October 6, 2004 AltaGas acquired substantially all of the assets and liabilities of PremStar Energy Canada Ltd. and its subsidiaries ECNG Inc. and Energistics Group Inc. for $21.9 million including acquisition costs. Consideration paid was $1.5 million cash and trust units with an ascribed value of $19.0 million issued from treasury. The acquisition was accounted for using the purchase method, whereby assets acquired are recorded at fair value and the results are included in these Consolidated Financial Statements from the date of acquisition.

Net Assets Acquired	2004
Working capital	$ 2,568
Capital assets	905
Energy services arrangements and contracts	825
Energy services relationships	17,562
	21,860
Net acquisition costs	(1,341)
	$ 20,519

4. SPIN-OUT OF NATURAL GAS DISTRIBUTION BUSINESSES

On November 17, 2005 AltaGas completed the spin-out of its 100 percent owned subsidiary Utility Group into a separate, publicly traded company. Utility Group owns 100 percent of AltaGas Utilities, a one-third interest in Inuvik Gas Ltd. and a 24.9 percent interest in Heritage Gas Limited. Prior to the spin-out these entities comprised the NGD segment held by the Trust.

The spin-out of Utility Group was completed through a series of transactions. Holders of trust units of the Trust and holders of exchangeable partnership units of AltaGas Holding Limited Partnership No. 1 (AltaGas LP#1) received one common share of Utility Group for each 13.9592 Trust Units or Partnership Units held on November 14, 2005. The number of common shares of Utility Group distributed to unitholders was 3,899,895 and reduced unitholders' equity by $25.7 million. The Trust sold 1,716,000 common shares of Utility Group at $7.50 per share for net proceeds of $10.7 million. Utility Group completed an initial public offering of 390,000 common shares for $7.50 per share for net proceeds of $2.7 million. This offering resulted in a 1.3 percent reduction of the Trust's interest in Utility Group to 26.7 percent. The series of transactions executed to effect the spin-out resulted in a net after-tax loss to the Trust of $0.1 million. Concurrent with the spin-out, AltaGas settled amounts due from Utility Group and, together with the proceeds from the sale of common shares of Utility Group, $85.4 million was used to repay bank debt.

Prior to the completion of the spin-out, Utility Group's assets and operations were consolidated as the NGD segment. Subsequent to the spin-out, the Trust holds 2,184,010 common shares of the 8,189,905 Utility Group shares issued and outstanding. From November 17, 2005 the Trust accounted for its interest in Utility Group as a long-term investment in Utility Group using the equity method with no restatement of prior periods.

The financial statement impact of the series of transactions completed to execute the spin-out reduced assets, liabilities and accumulated earnings of the Trust as follows:

Net Impact of Spin-out	
Current assets	$ (28,586)
Non-current assets	(129,749)
Current liabilities	29,870
Other liabilities	3,483
Distributions to unitholders	25,696
	$ (99,286)

Increase in long-term investments and other assets	$ 13,903
Repayment of intercompany advances to Utility Group	74,709
Net proceeds on sale of shares	10,674
	$ 99,286

5. CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand and balances with banks	$ 11,685	$ 11,551
Short-term investments	–	750
Cash and cash equivalents	$ 11,685	$ 12,301

The effective interest rate on short-term investments was 2.7 percent in 2005 (2004 – 1.8 percent).

6. CAPITAL ASSETS

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Field Gathering and Processing						
Gathering and processing assets	$ 496,284	$ (106,082)	$ 390,202	$ 450,612	$ (88,287)	$ 362,325
Other assets	2,692	(680)	2,012	2,044	–	2,044
Extraction and Transmission						
Extraction and transmission assets	246,615	(30,295)	216,320	244,976	(22,737)	222,239
Power Generation						
Capital lease	13,798	(1,836)	11,962	13,798	(457)	13,341
Energy Services						
Energy services assets	30,409	(12,595)	17,814	29,131	(9,999)	19,132
Other assets	53	–	53	–	–	–

6. CAPITAL ASSETS *(continued)*

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Natural Gas Distribution						
Natural gas distribution assets	–	–	–	165,557	(60,394)	105,163
Other assets	–	–	–	26,625	(9,634)	16,991
Corporate						
Other assets	14,774	(7,695)	7,079	11,242	(5,748)	5,494
	$ 804,625	$ (159,183)	$ 645,442	$ 943,985	$ (197,256)	$ 746,729

Interest capitalized on long-term capital construction projects for the year ended December 31, 2005 was $nil (2004 – $0.2 million). At December 31, 2005 the Trust had spent approximately $18.6 million (2004 – $5.5 million) on capital projects under construction that were not yet subject to amortization.

7. ENERGY SERVICES ARRANGEMENTS, CONTRACTS AND RELATIONSHIPS

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Energy services arrangements and contracts	$ 115,056	$ (25,149)	$ 89,907	$ 115,217	$ (18,663)	$ 96,554
Energy services relationships	20,943	–	20,943	16,548	–	16,548
	$ 135,999	$ (25,149)	$ 110,850	$ 131,765	$ (18,663)	$ 113,102

The amortization of the energy services relationships will begin on April 1, 2006.

8. LONG-TERM INVESTMENTS AND OTHER ASSETS

	2005	2004
Common shares of public companies	$ 375	$ 475
Common shares of private companies	10	696
Equity accounted investments in public entities	39,098	30,665
Other	1,438	3,040
	$ 40,921	$ 34,876

At December 31, 2005 the quoted market value of the holdings of public companies and public entities was approximately $61.3 million (2004 – $45.9 million). The fair market value of investments in private companies is not reasonably determinable.

On December 31, 2005 a private investment held by the Trust was written down by $0.6 million.

The Trust's investment in Taylor NGL Limited Partnership (Taylor) is accounted for using the equity method. On February 7, 2005 the Trust sold 1.4 million limited partnership units of Taylor for proceeds of $12.8 million, realizing an after-tax gain of $3.9 million. The sale reduced the Trust's ownership in Taylor to 4.0 million units, or 14.0 percent.

On March 22, 2005 Taylor issued 13.0 million limited partnership units. AltaGas did not participate in this issue, which reduced the Trust's ownership in Taylor to 9.5 percent and resulted in an after-tax dilution gain of $3.6 million.

On November 17, 2005 the Trust completed the spin-out of the NGD segment through a series of transactions into a publicly traded corporation, Utility Group. Upon completion of the spin-out, the Trust owned 2,184,010 common shares, or 26.7 percent, of Utility Group. The Trust accounts for its investment using the equity method. The value of the investment in Utility Group at the time of the spin-out was $13.9 million.

9. SHORT-TERM DEBT

At December 31, 2005 the Trust, through AltaGas LP#1, held a $50.0 million (2004 – $50.0 million) unsecured demand revolving operating credit facility with a Canadian chartered bank. Draws on the facility bear interest at the lender's prime rate or at the bankers' acceptance rate plus a stamping fee. At December 31, 2005 the Trust had prime loans of $2.7 million and letters of credit of $6.9 million (2004 – $7.0 million and $6.9 million, respectively) outstanding against the facility.

Until September 30, 2005 the Trust, through AltaGas LP#1, held a $75 million unsecured 364-day extendible revolving-term letter of credit facility. Effective September 30, 2005 this facility was amended into a three-year extendible revolving letter of credit facility (see Note 10 for a description of the amended facility). At December 31, 2004 the Trust had letters of credit of $28.7 million outstanding against the extendible revolving-term letter of credit facility.

The prime lending rate at December 31, 2005 was 5.00 percent (2004 – 4.25 percent).

10. LONG-TERM DEBT

	2005	2004
Operating loans	**$ 154,064**	$ 239,210
Capital lease obligation	**12,252**	13,253
Medium-term notes	**100,000**	100,000
	266,316	352,463
Less current portion	**1,071**	101,001
	$ 265,245	$ 251,462

Letter of Credit Facility

At December 31, 2005 the Trust, through AltaGas LP#1, held a $75.0 million (2004 – $75.0 million) unsecured three-year (2004 – 364-day) extendible revolving letter of credit facility with a Canadian chartered bank maturing on September 30, 2008. AltaGas may borrow up to $25.0 million by way of prime loans, U.S. base rate loans, LIBOR loans or bankers' acceptances on the letter of credit facility. Borrowings on the facility bear fees and interest at rates relevant to the nature of the draw made. At December 31, 2005 the Trust had letters of credit of $37.3 million (2004 – $28.7 million) outstanding against the extendible revolving-term letter of credit facility.

Operating Loans

At December 31, 2005 the Trust, through AltaGas LP#1, held a $300.0 million (2004 – $300.0 million) unsecured extendible revolving three-year credit facility with a syndicate of Canadian chartered banks. Borrowings on the facility can be by way of prime loans, U.S. base rate loans, LIBOR loans, bankers' acceptances or documentary credits. Borrowings on the facility bear fees and interest at rates relevant to the nature of the draw. On September 30, 2005 AltaGas negotiated the extension of the maturity date of this facility to September 30, 2008.

At December 31, 2005 the Trust had drawn $154.1 million (2004 – $239.2 million) against the facility. The prime lending rate at December 31, 2005 was 5.00 percent (2004 – 4.25 percent). The average rate on the Trust's bankers' acceptances at December 31, 2005 was 4.19 percent (2004 – 3.86 percent).

Medium-Term Notes

On April 29, 2005 AltaGas filed a Universal Shelf Prospectus pursuant to which the Trust may issue up to an aggregate of $500.0 million of trust units and debt securities over a 25-month period. AltaGas filed a prospectus supplement on August 23, 2005 establishing AltaGas' medium-term note (MTN) program. On August 30, 2005 $100.0 million of 4.41 percent senior unsecured MTNs were issued. The notes mature on September 1, 2010, with interest payable semi-annually. The proceeds of the issue were used to repay bank debt.

On October 4, 2005 the $100.0 million MTNs bearing interest at 7.28 percent, issued on October 4, 2000, matured and were repaid in full by the Trust.

AltaGas' debt agreements all require the Trust to meet certain financial tests and other covenants customary for these types of borrowings, which must be met at each quarter-end. The Trust is in compliance with all of these covenants.

Capital Lease Obligation

On September 1, 2004 the Trust entered into a 10-year capital lease with an option to extend the term for an additional 15 years. The lease has payment commitments over the next five years as follows:

2006	$ 1,878
2007	1,878
2008	1,878
2009	1,878
2010	1,878
Thereafter	6,891
	16,281
Less imputed interest at 6.85 percent	4,029
Present value of minimum lease payments	12,252
Less current portion	1,071
	$ 11,181

Interest expense on capital leases was $0.9 million in 2005 (2004 – $0.3 million).

11. ASSET RETIREMENT OBLIGATIONS

	December 31, 2005	December 31, 2004
Balance, beginning of year	**$ 16,122**	$ 13,962
New obligations in the year	**366**	1,271
Obligations settled	**(183)**	(205)
Obligations disposed	**(649)**	–
Accretion expense	**1,326**	1,094
Balance, end of year	**$ 16,982**	$ 16,122

AltaGas estimates the undiscounted cash required to settle the asset retirement obligations at December 31, 2005 was $48.1 million (2004 – $49.1 million). The asset retirement obligations have been recorded in the financial statements at estimated values discounted at rates between 6.9 percent and 8.5 percent and are expected to be incurred between 2010 and 2040. The majority of the costs are expected to be incurred between 2025 and 2035. No assets have been legally restricted for settlement of the estimated liability.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

In the course of normal operations the Trust issues short and long-term debt, and purchases and sells natural gas and power commodities. These activities result in exposures to fluctuations in interest rates and commodity prices. The Trust uses financial derivative instruments that result in cash settlements to manage the price or cash flow risk that results from these activities. The Trust does not make use of derivative instruments for speculative purposes.

The fair values of financial derivatives have been estimated using year-end market rates. These fair values approximate the amount that the Trust would receive or pay if the instruments were closed out at these dates.

Commodity Price Risk Management

Under the PPAs, AltaGas has an obligation to buy power at agreed terms and prices to December 31, 2020. The Trust sells the power to the Alberta Electric System Operator at spot prices and uses swaps and collars to fix the prices over time on a portion of the volumes. AltaGas' strategy is to lock in margins to provide predictable earnings. At December 31, 2005 the Trust had no intention to terminate any contracts prior to maturity.

At December 31, the Trust had the following contracts outstanding:

Derivative Instruments	Fixed price (per MWh)	Period (months)	Notional volume (MWh) Sales	Purchases	Fair value
2005					
Swaps	**$52.00 to $81.75**	**3 to 24**	**2,111,400**	**–**	**$ (23,936)**
Swaps	**$43.00 to $78.00**	**12 to 144**	**–**	**322,146**	**$ 273**
2004					
Swaps and collars	$41.50 to $63.25	3 to 12	2,440,573	–	$ 1,307
Swap	$55.77	156	–	341,856	$ (2,099)

Interest Rate Risk Management

To hedge against the effect of future interest rate movements, the Trust enters into interest rate swap agreements (swaps) to fix the interest rate on a portion of its bankers' acceptances issued under credit facilities.

In November 2005 AltaGas discontinued hedge accounting for $35.0 million in notional value swaps as a result of the maturity of the hedged bankers' acceptances. The swaps have an average remaining term of five to 10 months and a weighted average interest rate of 3.71 percent.

At December 31, the Trust had the following contracts outstanding:

Interest Rate Swaps	Period (months)	Principal	Weighted average interest rate	Fair value
2005	**5 to 39**	**$ 185,000**	**3.75%**	**$ 921**
2004	3 to 51	$ 200,000	3.93%	$ (1,797)

Credit Risk on Financial Instruments

Credit risk results from the possibility that a counterparty to a derivative in which the Trust has an unrealized gain fails to perform according to the terms of the contract.

Credit exposure is minimized by entering into transactions with creditworthy counterparties in accordance with established credit policies and practices. At December 31, 2005 AltaGas did not have a significant concentration of credit risk with any single counterparty to financial instruments.

13. UNITHOLDERS' EQUITY

	December 31, 2005	December 31, 2004
Unitholders' capital *(note 14)*	**$ 417,114**	$ 386,638
Contributed surplus	**2,839**	2,823
Accumulated earnings	**287,107**	196,819
Accumulated dividends	**(41,114)**	(41,114)
Accumulated unitholders' distributions declared[(1)]	**(161,664)**	(61,651)
Distributions of common shares of Utility Group	**(25,696)**	–
	$ 478,586	$ 483,515

(1) Accumulated distributions paid by the Trust as at December 31, 2005 were $152.9 million (as at December 31, 2004 – $53.7 million).

14. UNITHOLDERS' CAPITAL

Authorized December 31, 2003

- An unlimited number of common shares without nominal or par value; and
- An unlimited number of preferred shares without nominal or par value.

Authorized December 31, 2004

- An unlimited number of trust units redeemable for cash at the option of the holder;
- An unlimited number of AltaGas LP#1 class B limited partnership units, which are exchangeable into trust units on a one-for-one basis. Prior to May 1, 2014 the exchange is at the option of the unitholder at any time, and at the option of the Trust should the number of AltaGas LP#1 units outstanding fall below 750,000. After May 1, 2014 the exchange is at the option of either the Trust or the unitholder; and
- An unlimited number of AltaGas Holding Limited Partnership No.2 (AltaGas LP#2) class B limited partnership units, which are exchangeable into trust units on a one-for-one basis. Prior to May 1, 2009 the exchange is at the option of the unitholder at anytime, and at the option of the Trust should the number of AltaGas LP#2 units outstanding fall below 1,000,000. After May 1, 2009 the exchange is at the option of either the Trust or the unitholder.

Common Shares Issued and Outstanding:	Number	Amount
December 31, 2003	36,716,844	$ 179,076
Common shares issued for cash on exercise of options	209,449	1,752
Common shares issued for compensation	2,000	39
Common shares issued on conversion of preferred shares	9,000,000	88,964
Common shares repurchased and cancelled on trust conversion	(45,928,293)	(269,831)
December 31, 2004	–	–

Preferred Shares Issued and Outstanding:		
December 31, 2003	9,000,000	88,964
Converted to common shares	(9,000,000)	(88,964)
December 31, 2004	–	–
Issued and outstanding December 31, 2004	–	–

Trust Units Issued and Outstanding:		
December 31, 2003	–	–
Units issued on conversion (net of $5.6 million of after-tax conversion costs)	33,668,068	194,073
Units issued on public unit offering (net of $4.7 million of issuance costs)	4,730,000	83,760
Units issued on purchase of assets	993,789	18,961
Units issued for cash on exercise of options	1,022,127	9,638
Units issued under DRIP(1)	521,326	10,038
Units issued for exchangeable units	8,889,931	50,879
December 31, 2004	49,825,241	367,349

Exchangeable Units Issued and Outstanding:		
December 31, 2003	–	–
Issued by AltaGas LP#1 (net of conversion costs)	3,394,216	19,426
Issued by AltaGas LP#2 (net of conversion costs)	8,866,009	50,742
AltaGas LP#1 units redeemed for trust units	(23,922)	(137)
AltaGas LP#2 units redeemed for trust units	(8,866,009)	(50,742)
December 31, 2004	3,370,294	19,289
Issued and outstanding December 31, 2004	53,195,535	386,638

(1) Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan.

Trust Units Issued and Outstanding:	Number	Amount
December 31, 2004	49,825,241	367,349
Units issued for cash on exercise of options	304,411	2,737
Units issued under DRIP(1)	1,147,640	27,739
Units issued for exchangeable units	1,228,222	7,029
December 31, 2005	**52,505,514**	**404,854**
Exchangeable Units Issued and Outstanding:		
December 31, 2004 issued by AltaGas LP#1	3,370,294	19,289
AltaGas LP#1 units redeemed for trust units	(1,228,222)	(7,029)
December 31, 2005	**2,142,072**	**12,260**
Issued and outstanding December 31, 2005	**54,647,586**	**$ 417,114**

(1) Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan.

The Trust has an employee unit option plan under which both employees and directors are eligible to receive grants. At December 31, 2005, 3,800,000 units were reserved for issuance under the plan. To December 31, 2005 options granted under the plan generally had a term of 10 years to expiry and vested no longer than over a four-year period. On May 1, 2004, subsequent to the establishment of the Trust, all options granted were vested.

At December 31, 2005 outstanding options are exercisable at various dates to the year 2016 (2004 – 2014). Options outstanding under the plan have a weighted average exercise price of $9.40 (2004 – $9.02) and a weighted average remaining term of 9.25 years (2004 – 7.44 years). As at December 31, 2005 the unexpensed fair value of unit option compensation cost associated with future periods was $0.3 million (December 31, 2004 - $nil).

The following table summarizes information about the Trust's unit options:

	Options outstanding	
	Number of options	Weighted average exercise price
Unit options outstanding December 31, 2004	349,411	$ 9.02
Granted	322,200	26.62
Exercised	(304,411)	8.97
Cancelled	(8,000)	23.26
Unit options outstanding December 31, 2005	**359,200**	**$ 24.53**
Exercisable at December 31, 2005	**45,000**	**$ 9.40**

A summary of the plan as at December 31, 2005:

	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2005	Weighted average exercise price	Weighted average remaining contractual life (years)	Number exercisable at December 31, 2005	Weighted average exercise price
$5.00 – $7.00	11,000	$ 6.23	5.65	11,000	$ 6.23
$7.01 – $15.50	34,000	10.42	8.12	34,000	10.42
$15.51 – $25.08	142,200	24.26	7.73	–	–
$25.09 – $29.15	172,000	28.71	9.89	–	–
	359,200	$ 24.53	9.25	45,000	$ 9.40

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	2005	2004
Risk-free interest rate (percentage)	**4.07**	4.54
Expected lives (years)	**10**	10
Expected volatility (percentage)	**17.68**	14.00
Annual distributions per unit ($)	**1.85**	0.44

Units Outstanding[1] for the Years Ended December 31	**2005**	2004
Weighted average number of units – basic	**54,011,281**	49,385,041
Effect of dilutive stock options	**76,224**	783,516
Weighted average number of units – diluted	**54,087,505**	50,168,557

(1) Includes exchangeable units.

15. COMMITMENTS

Future minimum lease payments under operating leases for office space, office equipment, and automotive equipment are estimated as follows:

2006	$ 3,579
2007	3,567
2008	519
2009	269
2010	169
	$ 8,103

Under the terms of a 1997 long-term gas supply contract, the Trust is committed to supply natural gas for prices ranging from $2.11/Mcf in 2005 to $2.40/Mcf by contract expiry in 2009. The Trust contracted with several producers to provide the volumes for the term of the 10-year contract. One of those producers defaulted in 1999 on its obligation under its gas supply contract, resulting in the delivery commitment for 2,845 Mcf/d being assumed by the Trust. The Trust owns natural gas reserves as a hedge against the obligation under this supply contract. The natural gas produced from these reserves is in excess of the commitment under the contract.

In addition to the production from its own reserves, in 1999 the Trust acquired a right to purchase natural gas from specific reserves for $0.05/Mcf for the life of the reserves. The production from these reserves was 1,333 Mcf/d in 2005 (2004 – 1,138 Mcf/d) and also serves as a hedge against the commitment under the reverted contract.

The Trust entered into an energy contract with the Balancing Pool Administrator for the right and obligation to purchase power from 100 MW of power capacity at the EPCOR Generation Inc.-operated Genesee power plant for a three-year term commencing April 1, 2003. The Trust has an obligation to pay a competitively priced fixed monthly capacity charge for the power capacity under this PPA.

16. INCOME TAXES

Taxation of the Trust

Payments received by the Trust in the form of interest, distributions or other income from its subsidiaries are taxable income to the Trust. The Trust is entitled to deduct, for income tax purposes, its costs and its distributions to unitholders. Since it distributes all of its income to unitholders, the Trust is not expected to be liable for income taxes either currently or in the foreseeable future.

Taxation of the Operating Subsidiaries

Incorporated operating subsidiaries of the Trust are subject to tax in the same manner as any other corporation. Operating subsidiaries are generally not expected to pay significant taxes, with the exception of the Large Corporations Tax, either currently or in the foreseeable future under existing tax legislation. Subsidiaries of the Trust that operated under utility board regulation incurred and expensed income tax on income earned.

Consolidated Tax Position

The tax provision recorded on the Consolidated Financial Statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rates to income before tax as follows:

	2005	2004
Income before taxes – consolidated	$ 89,020	$ 70,412
Income from AltaGas Income Trust distributed to unitholders	(86,099)	(48,616)
Income before taxes – operating subsidiaries	2,921	21,796
Statutory income tax rate	37.62%	38.87%
Expected taxes at statutory rate	1,099	8,472
Add (deduct) the tax effect of:		
Resource allowance	(2,204)	(2,529)
Manufacturing and processing credit	–	(136)
Large Corporations Tax	1,063	1,129
Rate reductions applied to future income tax liabilities	(440)	(3,418)
Permanent differences between accounting and tax bases of assets and liabilities	(445)	527
Other	(341)	566
Income tax provision		
Current	2,096	7,715
Future	(3,364)	(3,104)
	$ (1,268)	$ 4,611
Effective income tax rate	(1.42%)	6.55%

AltaGas' income taxes are calculated according to government tax laws and regulations which result in different values for certain assets and liabilities for income tax purposes than for financial statement purposes. The amount shown on the Consolidated Balance Sheets as future income tax assets and liabilities represents the net differences between tax values and book carrying values on the operating subsidiaries' balance sheets at substantially enacted tax rates. GAAP requires these future income tax assets or liabilities to be recognized in the Consolidated Financial Statements. In the case of AltaGas, these future income taxes are not expected to result in cash taxes being paid due to the expectation of continued future intercompany interest deductions at the operating subsidiary level.

As at December 31, 2005 future income taxes were comprised of the following:

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Capital assets	$ –	$ 20,577	$ –	$ 29,492
Net operating losses unused for tax purposes	–	–	208	–
Deferred debt charges	–	37	–	87
Share issue costs	–	(2,074)	–	(3,013)
Partnerships	–	33,980	–	28,890
Other	–	(87)	–	708
	$ –	$ 52,433	$ 208	$ 56,164

Future income tax expense and future income tax assets and liabilities were not recognized at December 31, 2005 for the Trust's rate regulated NGD subsidiary. Unrecognized future income tax expense for the year ended December 31, 2005 is $nil (2004 – $0.9 million) while unrecognized future income tax liabilities at December 31, 2005 are $nil (2004 – $7.4 million), both due to the spin-out of the NGD business.

17. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in the following non-cash working capital items increased (decreased) cash flows from operations as follows:

	2005	2004
Accounts receivable	**$ (60,177)**	$ (72,044)
Inventory	**155**	1,629
Other current assets	**424**	961
Accounts payable and accrued liabilities	**61,375**	79,500
Distributions payable to unitholders	**765**	7,979
Customer deposits	**(1,547)**	16,918
Other current liabilities	**(2,607)**	6,336
	(1,612)	41,279
Less increase in working capital due to spin-out of Utility Group	**85**	–
Less increase in working capital from non-cash acquisition	**–**	585
Less decrease (increase) in capital costs payable	**(13,440)**	5,442
Add increase in distributions payable	**(765)**	(7,979)
Net change in non-cash working capital related to operations	**$ (15,732)**	$ 39,327

The following cash payments have been included in the determination of earnings:

	2005	2004
Interest paid	**$ 17,829**	$ 19,809
Income taxes paid	**$ 1,321**	$ 11,436

18. UNIT-BASED COMPENSATION

AltaGas implemented a unit-based compensation plan in 2004 which awards phantom units to certain employees. The phantom units are valued on distributions declared and the trading price of the Trust's units. The units vest on a graded vesting schedule. Total compensation expense recognized in 2005 under this plan was $3.0 million (2004 – $1.1 million).

Vesting Date	Number of phantom units outstanding
2006	21,181
2007	173,223
2008	15,240
	209,644

19. PENSION PLANS AND RETIREMENT BENEFITS

Defined-Contribution Plan

On July 1, 2005 AltaGas implemented a defined-contribution (DC) pension plan for substantially all full-time employees. The DC plan replaced the Group RRSP that had been in effect.

Defined-Benefit Plans

On November 17, 2005 AltaGas indirectly disposed of its interest in AltaGas Utilities through the spin-out of Utility Group. Substantially all of the employees of this subsidiary are members of one of two defined-benefit, non-contributory pension plans. An accrued benefit asset of $0.6 million, plan assets of $14.2 million, and an accrued benefit obligation of $16.1 million were transferred to Utility Group upon spin-out. Plan contributions in 2005 and 2004 were made in accordance with 2002 reports on the actuarial valuation for funding purposes. An actuarial valuation for funding purposes was performed as at September 20, 2005. The individual plans transferred to Utility Group had deficits on the consolidated balance sheets of AltaGas. The Salaried Employees' Pension Plan had a deficit at the date of transfer of $1.5 million (December 31, 2004 – $0.4 million) and the Bargaining Unit Pension Plan had a deficit of $0.3 million (December 31, 2004 – $0.2 million).

On July 1, 2005 there were 11 Trust employees under a defined-benefit, non-contributory pension plan for pre-AltaGas pensionable service. No future service accrues under this plan. As at December 31, 2005 the accrued benefit obligation of this plan was $1.7 million (2004 – $1.6 million). As at December 31, 2005 the plan has a funding deficit of $0.3 million (2004 – $0.3 million). An actuarial valuation for funding purposes was performed as at September 30, 2005.

Supplemental Executive Retirement Plan (SERP)

Effective July 1, 2005, the Trust instituted a non-registered, defined-benefit retirement plan which provides defined-benefit pension benefits to eligible executives based on average earnings, years of service and age at retirement.

The SERP benefits will be paid from the general revenue of AltaGas as payments come due. Security will be provided for the SERP benefits through a letter of credit within a Retirement Compensation Arrangement Trust account.

The net pension expense recorded for the following periods was:

	2005	2004
Defined benefit plans	$ 836	$ 966
SERP	631	–
Defined-contribution plan	586	–
Net pension expense	$ 2,053	$ 966

The defined-benefit plan expense in 2005 included expenses for the AltaGas Utilities plans up to November 17, 2005, the date of the spin-out of the NGD business.

The cost of the Group RRSP in 2005 prior to the implementation of the DC plan was $0.4 million (2004-$0.6 million).

The following table summarizes the details of the defined benefit plans:

	2005		2004	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Accrued benefit obligation				
Balance, beginning of year	$ 13,670	$ 1,224	$ 11,656	$ 1,020
Net transfer in (out)	1,583	–	–	–
Experience loss	1,551	352	496	107
Current service cost	1,058	50	778	47
Past service cost	971	–	–	–
Interest cost	880	67	776	66
Benefits paid	(579)	(18)	(36)	(16)
Accrued benefit obligation transferred to Utility Group	(16,147)	(1,675)	–	–
Balance, end of year	2,987	–	13,670	1,224
Plan assets				
Fair value, beginning of year	12,784	–	9,792	–
Net transfer in (out)	1,262	–	–	–
Actual return on plan assets	904	–	1,596	–
Employer contributions	1,209	18	1,432	16
Benefits paid	(579)	(18)	(36)	(16)
Plan assets transferred to Utility Group	(14,171)	–	–	–
Fair value, end of year	1,409	–	12,784	–
Funding deficit	(1,578)	–	(886)	(1,224)
Unamortized transitional obligation	377	305	419	331
Unamortized past service costs	1,042	–	138	–
Unamortized net actuarial loss	2,287	685	1,060	345
Accrued benefit asset (liability)	2,128	990	731	(548)
Accrued benefit (asset) liability transferred to Utility Group	(2,585)	(990)	–	–
Accrued benefit asset (liability)	$ (457)	$ –	$ 731	$ (548)

	2005		2004	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Significant actuarial assumptions used as at December 31				
Discount rate (percent)	**5.25 - 5.50**	**6.00**	6.00	6.00
Expected long-term rate of return on plan assets (percent)	**6.50**	**n/a**	6.75	n/a
Rate of compensation increase (percent)	**3.50 - 4.00**	**5.00**	5.00	5.00
Average remaining service life of active employees (years)	**13-14**	**16**	14	16
Net benefit plan expense for the year				
Current service cost and expenses	**$ 1,058**	**$ 50**	$ 778	$ 47
Interest cost	**880**	**67**	776	66
Actual return on plan assets	**(904)**	**–**	(1,595)	–
Actuarial losses	**1,551**	**352**	496	107
Costs arising in the period	**2,585**	**469**	455	220
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	**72**	**–**	902	–
Plan amendments	**29**	**–**	33	–
Actuarial gains	**(1,299)**	**(340)**	(472)	(98)
Past service costs	**38**	**–**	–	–
Transitional obligations	**42**	**26**	48	30
Net periodic benefit plan costs recognized	**$ 1,467**	**$ 155**	$ 966	$ 152

20. RELATED PARTY TRANSACTIONS

The Trust sold $26.9 million of natural gas to, and incurred transport costs of $1.4 million charged by, Utility Group, an equity accounted investee from November 17, 2005 through December 31, 2005.

There is an Administrative Service Agreement between the Trust and Utility Group whereby the Trust provides certain administrative and support services to Utility Group until December 31, 2007, and which may be extended by mutual agreement of the parties. AltaGas will receive $30,000 per annum in consideration for the services provided.

On August 19, 2004 the Trust purchased 1.6 million units of Taylor, an equity accounted investee, from Taylor's treasury. AltaGas paid $10.6 million for the units.

On June 30, 2004 L.O.P. Inc. (LOP), an equity accounted investee, repaid the $2.3 million loan extended to it by the Trust. At the same time, the Trust sold its investment in LOP to LOP's majority shareholder for proceeds of $0.5 million.

The Trust pays rent under a lease for office space to 2013761 Ontario Inc., which is owned by an employee. Payments of $81,500 were made in 2005 (2004 – $21,500). The five-year lease expires in 2007 and is renewable at the option of AltaGas for another five years.

These transactions have been recorded at their exchange amounts.

21. JOINT VENTURES

The Trust's proportionate interest in its joint venture arrangements is summarized as follows:

	2005	2004
Proportionate share of operating income		
Revenue	$ 303,165	$ 194,609
Expenses	245,054	156,123
	$ 58,111	$ 38,486
Proportionate share of net assets		
Current assets	$ 27,022	$ 13,393
Capital assets	46,821	54,119
Energy services arrangements and contracts	87,085	92,871
Investments and other assets	–	489
Current liabilities	(28,928)	(17,286)
	$ 132,000	$ 143,586
Proportionate share of cash flows		
Operating activities	$ 60,079	$ 49,075
Investing activities	(3,799)	(2,333)
Financing activities	(56,280)	(46,741)
	$ –	$ 1

22. SEGMENTED INFORMATION

AltaGas is an integrated energy trust with a portfolio of assets and services used to move energy from the source to the end-user. Transactions between the reporting segments are recorded at fair value. Effective January 1, 2005 AltaGas began reporting its results under six segments, up from three. For the period from January 1, 2005 to November 16, 2005 the operating and financial results reflect the consolidated revenues and expenses of the entities that formed the NGD segment which was spun-off on November 17, 2005. In prior periods AltaGas disclosed segmented information for the segments Gathering and Processing, Energy Services and NGD. The following describes the new reporting segments:

Field Gathering and Processing – natural gas gathering lines and processing facilities;

Extraction and Transmission – ethane and natural gas liquids extraction plants and transmission pipelines;

Power Generation – power purchase arrangements and contracts and gas-fired peaking plants;

Energy Services – gas services and energy management services for natural gas and power, and oil and natural gas reserves and production;

Natural Gas Distribution – natural gas distribution utility business; and

Corporate – the costs of providing corporate services, and investments in public and private entities, corporate assets and general corporate overhead.

The following tables show the breakdown by segment for the quarters and the years ended December 31, 2004 and 2005. Results for 2005 are reported on the basis of six segments: Field Gathering and Processing; Extraction and Transmission; Power Generation; Energy Services; Natural Gas Distribution; and Corporate. Prior to 2005, Field Gathering and Processing, and Extraction and Transmission were included in the former Gathering and Processing segment, Power Generation was included in the Energy Services segment and there was no Corporate segment. The segment information for the year ended December 31, 2004 has not been restated to conform with the financial statement presentation for the year ended December 31, 2005. Due to the sharing of certain costs, it is not practical to separate costs previously allocated to the operating segments.

For year ended December 31, 2005	Field Gathering and Processing	Extraction and Transmission	Power Generation	Energy Services	Natural Gas Distribution	Corporate	Intersegment elimination	Total
Revenue	$ 131,835	$ 181,314	$ 189,205	$ 1,080,225	$ 113,429	$ 10,915	$ (204,577)	$ 1,502,346
Cost of sales	(11,693)	(123,319)	(131,363)	(1,056,764)	(84,444)	–	202,102	(1,205,481)
Operating and administrative expenses	(75,390)	(20,055)	(1,834)	(14,758)	(15,988)	(15,832)	2,475	(141,382)
Amortization	(20,660)	(7,558)	(7,313)	(3,151)	(6,755)	(1,935)	–	(47,372)
Operating income	$ 24,092	$ 30,382	$ 48,695	$ 5,552	$ 6,242	$ (6,852)	$ –	$ 108,111
Net additions to:								
Capital assets	$ 46,320	$ 1,639	$ –	$ 1,384	$ (192,157)	$ 3,453	$ –	$ (139,361)
Energy services arrangements, contracts and relationships	$ –	$ –	$ –	$ 4,233	$ –	$ –	$ –	$ 4,233
Long-term investments and other assets	$ –	$ –	$ –	$ –	$ (2,327)	$ 8,372	$ –	$ 6,045
Goodwill	$ –	$ 18,860	$ –	$ –	$ –	$ –	$ –	$ 18,860
Segment assets	$ 532,083	$ 211,150	$ 156,053	$ 120,140	$ –	$ 48,903	$ –	$ 1,068,329

Segmented results presented on the prior year basis would have been as follows:

For the year ended December 31, 2005	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment elimination	Total
Revenue	$ 322,029	$1,257,253	$ 113,429	$ (190,365)	$ 1,502,346
Cost of sales	(135,012)	(1,175,950)	(84,444)	189,925	(1,205,481)
Operating and administrative expenses	(106,434)	(19,400)	(15,988)	440	(141,382)
Amortization	(29,768)	(10,849)	(6,755)	–	(47,372)
Operating income	$ 50,815	$ 51,054	$ 6,242	$ –	$ 108,111
Net additions to:					
Capital assets	$ 50,664	$ 2,132	$ (192,157)	$ –	$ (139,361)
Energy services arrangements, contracts and relationships	$ –	$ 4,233	$ –	$ –	$ 4,233
Long-term investments and other assets	$ 8,372	$ –	$ (2,327)	$ –	$ 6,045
Goodwill	$ 18,860	$ –	$ –	$ –	$ 18,860
Segment assets	$ 792,136	$ 276,193	$ –	$ –	$ 1,068,329

For the year ended December 31, 2004	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment elimination	Total
Revenue	$ 222,578	$ 629,562	$ 124,645	$ (112,176)	$ 864,609
Cost of sales	(62,503)	(569,635)	(93,991)	111,878	(614,251)
Operating and administrative expenses	(88,471)	(12,359)	(16,449)	298	(116,981)
Amortization	(26,195)	(9,294)	(6,337)	–	(41,826)
Operating income	$ 45,409	$ 38,274	$ 7,868	$ –	$ 91,551
Net additions to:					
Capital assets	$ 76,894	$ 15,117	$ 9,605	$ –	$ 101,616
Energy services arrangements, contracts and relationships	$ –	$ 18,398	$ –	$ –	$ 18,398
Long-term investments and other assets	$ 9,401	$ –	$ 848	$ –	$ 10,249
Goodwill	$ 18,860	$ –	$ –	$ –	$ 18,860
Segment assets	$ 784,837	$ 165,998	$ 157,761	$ –	$ 1,108,596

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

24. SUBSEQUENT EVENT

The Trust has extended its lease commitment for office space to November 2012. The annual lease commitment for the renewal term will average approximately $1.7 million, commencing December 1, 2007.

10-Year Review – Financial and Operating Information

($ millions unless otherwise indicated)	2005	2004	2003
Financial Highlights			
Income Statement			
Revenue	1,502.3	864.6	710.6
Net revenue [1][2]			
Gathering, Processing and Energy Services	–	–	–
Gathering and Processing	–	160.1	137.8
Field Gathering and Processing	120.1	–	–
Extraction and Transmission	58.0	–	–
Power Generation	57.8	–	–
Energy Services	23.5	59.9	49.3
Natural Gas Distribution [8]	29.0	30.7	30.6
Corporate	10.9	–	–
Intersegment elimination	(2.4)	(0.3)	(0.4)
	296.9	250.4	217.3
EBITDA [1]	155.5	133.4	121.9
Net income	90.3	65.8	38.3
Net income per basic unit	$ 1.67	$ 1.33	$ 0.84
EBITDA per basic unit	$ 2.88	$ 2.70	$ 2.68
Cash Flow			
Funds generated from operations [1]	128.2	108.6	90.2
Funds generated from operations per basic unit [1]	$ 2.37	$ 2.20	$ 1.98
Distributions/dividends per unit paid [11]	$ 1.84	$ 1.31	$ 0.38
Balance Sheet			
Capital assets	645.4	746.7	677.9
Energy services arrangements and contracts	110.9	113.1	101.0
Total assets	1,068.3	1,108.6	919.3
Short-term debt	2.7	7.0	4.5
Long-term debt	266.3	352.5	392.4
Unitholders' equity	478.6	483.5	363.3
Unit Data (millions)			
Units outstanding at year-end	54.6	53.2	45.7
Weighted average units outstanding for the year (basic)	54.0	49.4	45.5
Ratios (percent)			
Return on average equity	18.4	15.7	10.9
Return on average invested capital	13.0	11.6	11.1
Debt as a percent of total capitalization	36.0	42.6	52.2
Operating Results			
Field Gathering and Processing			
Capacity (gross Mmcf/d) [3]	962	913	861
Throughput (gross Mmcf/d) [4]	573	558	523
Throughput (gross average annual Mmcf/d)	563	560	520
Capacity utilization (percent) [4]	60	61	61
Extraction and Transmission			
Extraction inlet capacity (Mmcf/d) [3]	539	539	349
Production (Bbls/d) [5]	19,357	13,436	7,575
Transmission volumes (Mmcf/d) [6][7]	432	432	403
Power Generation			
Volume of power sold (thousands of MWh) [5]	3,466	3,481	3,266
Price received on the sale of power ($/MWh) [5]	54.59	48.77	47.56
Alberta Power Pool price ($/MWh) [5]	70.19	54.54	62.98
Energy Services			
Energy management service contracts [3]	1,243	427	–
Average gas volumes marketed (GJ/d)	312,272	174,337	–
Natural Gas Distribution [8][9]			
Volume of natural gas distributed			
Sales (Bcf)	10	14	14
Transportation (Bcf)	9	11	10
Number of customers [3]	61,447	60,430	59,543
Degree day variance (percent) [10]	(1.4)	2.6	6.9

Comparative figures have not been restated to conform to the current financial presentation.

(1) Non-GAAP financial measure. See discussion on page 25.

(2) Resegmentations occurred in 2005 and 2002 without prior year restatements.

(3) As at December 31.

(4) Fourth quarter average.

(5) Annual average.

(6) Average for fourth quarter except for 1998, which included December only.

(7) Volumes do not include condensate pipeline volumes.

2002	2001	2000	1999	1998	1997	1996
492.7	489.8	506.7	257.8	122.1	52.3	17.5
–	111.0	88.5	61.8	36.3	22.2	10.2
99.6	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
44.2	–	–	–	–	–	–
28.9	26.9	28.1	27.2	12.9	–	–
–	–	–	–	–	–	–
(2.8)	(2.9)	(0.3)	(3.1)	(1.4)	–	–
169.9	135.0	116.3	85.9	47.8	22.2	10.2
94.8	69.9	57.0	42.8	24.1	10.2	4.2
29.4	19.2	17.6	11.3	7.2	4.6	1.7
$ 0.70	$ 0.50	$ 0.46	$ 0.43	$ 0.39	$ 0.27	$ 0.16
$ 2.24	$ 1.83	$ 1.50	$ 1.62	$ 1.31	$ 0.60	$ 0.38
70.8	50.2	40.5	28.6	16.1	8.9	4.8
$ 1.67	$ 1.31	$ 1.06	$ 1.08	$ 0.88	$ 0.44	$ 0.43
$ 0.28	$ 0.18	–	–	–	–	–
663.4	521.0	453.0	376.9	280.5	71.2	47.4
107.0	112.2	–	–	–	–	–
904.9	721.1	581.1	436.5	327.1	85.6	56.8
50.6	100.0	–	–	–	–	–
368.9	283.9	216.9	151.9	160.3	30.2	18.9
338.6	261.9	250.6	230.8	129.1	35.9	25.9
45.2	38.5	38.2	37.8	18.9	18.0	16.9
42.3	38.2	38.1	26.4	18.4	17.0	11.2
9.8	7.3	7.0	6.6	9.0	15.0	12.6
9.3	8.7	8.6	8.4	9.4	12.7	12.8
55.3	58.5	45.6	39.0	54.7	44.1	40.4
842	768	712	658	494	299	246
532	498	434	371	276	147	129
492	489	418	330	208	131	82
63	65	61	56	56	49	52
349	219	211	199	155	35	30
3,399	2,618	3,369	2,198	956	391	330
106	47	36	26	16	–	–
2,669	–	–	–	–	–	–
41.27	–	–	–	–	–	–
43.85	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
14	13	14	13	6	–	–
8	8	7	6	3	–	–
58,499	57,542	56,692	55,636	55,147	–	–
7.8	(3.4)	6.5	(1.1)	–	–	–

(8) AltaGas purchased 100 percent of the outstanding common shares of AltaGas Utilities Inc. on June 30, 1998. On November 17, 2005 AltaGas spun-out its Natural Gas Distribution segment to AltaGas Utility Group Inc., of which it retains a 26.7 percent interest.

(9) Excludes Inuvik Gas Ltd. and Heritage Gas Limited.

(10) Variance from 20-year average – positive variances are favourable.

(11) Distributions declared and paid in November 2005 do not include $0.54 per unit paid in the form of shares of AltaGas Utility Group Inc. as a result of the spin-out of the Natural Gas Distribution business.

Unitholder Information

2005 Distributions[1]

Declaration date	Record date	Payment date	Total distribution
January 13	January 25	February 15	$ 0.1500
February 15	February 25	March 15	$ 0.1500
March 2	March 28	April 15	$ 0.1500
April 13	April 25	May 16	$ 0.1500
May 11	May 25	June 15	$ 0.1500
June 15	June 27	July 15	$ 0.1500
July 13	July 25	August 15	$ 0.1500
August 10	August 25	September 15	$ 0.1600
September 14	September 26	October 17	$ 0.1600
October 13	October 25	November 15	$ 0.1600
November 9	November 25	December 15	$ 0.1600
November 14	November 14	November 17	$ 0.5373
December 14	December 23	January 16	$ 0.1600
Total 2005			$ 2.3873

(1) Cash distributions declared were $1.85 per unit. In addition, one share of AltaGas Utility Group Inc. was issued for every 13.9592 trust units held on November 14, 2005, a distribution of $0.5373 per unit.

Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase plans (DRIP)

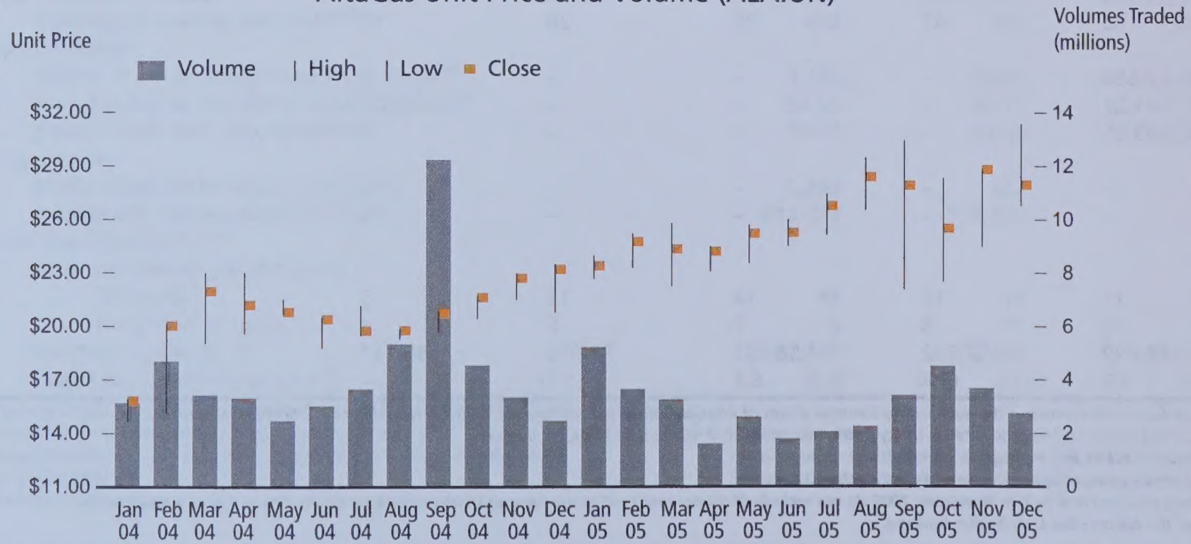
AltaGas Income Trust has adopted a Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan for holders of trust units of AltaGas Income Trust and holders of Class B Limited Partnership Units (Exchangeable Units) of either AltaGas Holding Limited Partnership No. 1 or AltaGas Holding Limited Partnership No. 2.

The plan provides unitholders with a convenient and economical way to maximize their investment in AltaGas. The plan provides an alternative where eligible unitholders may elect, under the Premium Distribution™ component, to receive a premium cash distribution equal to 102 percent of the reinvested cash distribution or invested cash payment that such unitholders would have otherwise been entitled to receive on the distribution payment date. The plan also enables eligible unitholders to direct cash distributions paid by AltaGas in respect of their existing trust units be reinvested or cash payments made by the AltaGas LPs in respect of their Exchangeable Units be invested in additional trust units at 95 percent of the average market price (as defined in the plan) of a trust unit. Eligible unitholders can also make optional trust unit purchases at the weighted average market price subject to plan limits.

If you wish to participate in the plan, eligible registered unitholders must enroll directly with Computershare Trust Company of Canada, while beneficial unitholders should simply contact their broker, investment dealer, financial institution or other nominee through which you hold your trust units or Exchangeable Units, as they must enroll on your behalf.

Complete details on DRIP are available on the AltaGas website at www.altagas.ca.

AltaGas Unit Price and Volume (ALA.UN)



ALTAGAS: CORPORATE INFORMATION

DIRECTORS OF ALTAGAS GENERAL PARTNER INC.

John B. Breen (1)(2)(6)
Director
Toronto, Ontario, Canada

David W. Cornhill (4)
Chairman, President and Chief Executive Officer
Calgary, Alberta, Canada

Allan L. Edgeworth (1)(4)
Director
Calgary, Alberta, Canada

Denis C. Fonteyne (1)(3)(4)
Director
Calgary, Alberta, Canada

Daryl H. Gilbert (1)(2)(3)
Director
Calgary, Alberta, Canada

Robert B. Hodgins (1)(2)
Director
Calgary, Alberta, Canada

Myron F. Kanik (1)(3)(5)(6)
Director
Calgary, Alberta, Canada

David F. Mackie (1)(3)(6)
Director
Houston, Texas, United States of America

Notes:
(1) *Independent directors.*
(2) *Member of the Audit Committee.*
(3) *Member of the Human Resources and Compensation Committee.*
(4) *Member of the Environment and Safety Committee.*
(5) *Lead director.*
(6) *Member of the Governance Committee.*

MANAGEMENT TEAM

Nancy A. Anderson
Vice President Business Development

Jeremy R. Baines
Treasurer

James B. Bracken
Senior Vice President Energy Services

David W. Cornhill
Chairman, President and Chief Executive Officer

Dennis A. Dawson
Vice President, General Counsel and Corporate Secretary

Massimiliano Fantuz
Divisional Vice President Gas Services

Patricia M. Newson
Senior Vice President Finance and Chief Financial Officer

Jeffrey F. Perry
Divisional Vice President Gathering and Processing Operations

Marilyn A. Pfaefflin
Divisional Vice President Transmission

Deborah S. Stein
Vice President Controller

Kent E. Stout
Vice President Corporate Resources

Marshal L. Thompson
Senior Vice President Gathering and Processing

AUDITORS

Ernst & Young, LLP
Calgary, Alberta, Canada

TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta, Canada
Toll-free: 1-800-564-6253
Email: service@computershare.com

Investors are encouraged to contact Computershare for information concerning their security holdings.

STOCK EXCHANGE LISTING

Toronto Stock Exchange: ALA.UN

ANNUAL MEETING

Thursday, April 27, 2006
3:00 pm local time
Strand/Tivoli Room
The Metropolitan Centre
333 - 4th Avenue S.W.
Calgary, Alberta, Canada

INVESTOR RELATIONS

For investor relations enquiries, please contact:
Telephone: 1-403-691-7100
Toll-free: 1-877-691-7199
Fax: 1-403-691-7150
Email: investor.relations@altagas.ca

DEFINITIONS

Bbls/d	barrels per day
Bcf	billion cubic feet
Mmcf/d	million cubic feet per day
MW	megawatt
MWh	megawatt-hour

ON THE COVER

(Clockwise from top left) Energy Services customer CHIP Hotels, TransAlta Corporation's Sundance Power Plant, an AltaGas employee at work, the Edmonton Ethane Extraction Plant, community partner Shock Trauma Air Rescue Society (STARS)

igned & produced by Merlin Edge Inc. www.merlinedge.com
ted in Canada

AltaGas

Well connected.

AltaGas Income Trust
Suite 1700, 355 - 4th Avenue S.W., Calgary, Alberta Canada T2P 0J1

www.altagas.ca